ARBITRATION COMMITTEE

PROVINCE OF ALBERTA - CITY OF EDMONTON

IN THE MATTER OF AN ARBITRATION BETWEEN THE GOVERNMENT OF ALBERTA AND THE CITY OF EDMONTON RESPECTING CERTAIN ISSUES CONCERNING LONG DISTANCE TOLL REVENUES GENERATED IN THE CITY OF EDMONTON

DECISION OF THE ARBITRATION COMMITTEE

CHAIRMAN

The Honourable Tevie H. Miller
Associate Chief Justice, Court of Queen's Bench of Alberta

MEMBERS

Mr. Charles Dalfen Mr. Blaine Archibald

EDMONTON - ALBERTA

February 28, 1987

THE ARBITRATION COMMITTEE

The Honourable Tevie H. Miller

Associate Chief Justice, Court of Queen's Bench of Alberta

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SECTION I

SUMMARY AND HIGHLIGHTS OF THE COMMITTEE'S DECISION

This Decision of the Arbitration Committee results from a very lengthy hearing by the Committee, lasting forty-two sitting days, with 122 exhibits filed comprising several thousand pages, 412 formal interrogatories responded to by the parties, a transcript of 4,186 pages, and several hundred pages of written argument.

The work of the Committee was made very difficult by reason of the untimely death of Dr. Hu Harries, the Provincial Government's nominee, on August 26th, 1986. However, the appointment of Mr. Blaine Archibald, as Dr. Harries' replacement, made it possible to salvage the work done to that date.

The issues before the Committee concerned highly complex technical telecommunication matters. The Committee heard testimony from independent experts from the respective staffs of the parties.

The Committee's mandate was to develop or select a practical toll sharing formula to be used by AGT and 'et' for the sharing of toll revenues generated in the City of Edmonton in a manner which provides fair and equitable treatment for all Albertans.

There were three formulae advanced for the Committee's consideration. The City advocated the Alternate Appendix "B" (AAB) formula patterned on the formula used between Bell Canada and the independent telephone companies connecting with it in Quebec and Ontario. The Province urged the Committee to adopt the Comparative Requirements Test (CRT) which had been developed by a Committee of Inquiry appointed by the CRTC and endorsed by that body for the division of toll revenue between the City of Prince Rupert (which owns and operates its own telephone utility) and the British Columbia Telephone Company. Mr. Archibald put forward a purely cost-based methodology which he developed for the specific circumstances of the Alberta situation.

The Committee studied all three formulae carefully. In the end result it was not possible to secure unanimity. The Chairman and the City's nominee have issued a majority decision and the Province's nominee has issued a minority decision.

As the Terms of Reference directed that any majority decision by the Arbitration Committee would be final and binding on the parties, that decision will be the Decision of the Committee.

Nevertheless, included in the reasons for the Committee's Decision which follows, are the reasons for and the Dissenting Decision of Mr. Archibald.

The formula endorsed in the majority Decision of the Committee is based on the methodology of the AAB, but is modified to reflect the unique telecommunications picture and the statutory requirements for subsidy in Alberta. The formula developed in the minority Decision is based on cost considerations, but is also structured to reflect Alberta's situation.

Until 1985 the Provincial statute governing AGT and 'et' prohibited the sharing of toll revenues. Nevertheless, there were and presently are agreements arrived at between the two telephone companies whereby AGT paid to 'et' specific amounts for certain 'et' services and facilities made available to AGT. In 1985 AGT paid to 'et' under the toll related portions of these Interconnecting Company Agreements (ICA) the sum of $15,631,334.

The formula which the Committee has developed will replace those portions of the ICA and the payments thereunder.

The result is that under the Committee's formula 'et' will receive from AGT out of toll revenues generated in the City of Edmonton the sum of $10,226,060 for the first three months of 1985, which annualized amounts to $43,175,169. The amounts payable by AGT to 'et' in subsequent years, based on the Committee's formula, may be of the like order, depending upon various factors.

As a result of the application of the modified AAB formula in 1985, 'et' will receive from AGT an additional $27,543,835 over what it has already received under the ICA.

According to the Committee's mandate, the formula must ensure that both AGT and 'et' provide funds to finance telephone services in the Province that are not self-supporting. This obligation, which is also statutory, is unique to Alberta. The Committee found that the total provincial subsidy requirement to finance non-self-supporting services in 1984 (excluding the City of Edmonton) was in the order of $252.2 million. It also found that, after paying the $43,175,169 to 'et' as directed by this Committee, and recovering its costs associated with Edmonton- generated toll revenues, AGT should have approximately $86.7 million left over from Edmonton- generated toll revenues to use towards the Provincial subsidy requirement. As the number of 'et's access lines is roughly 30% of the Province's total access lines and as the sum of $86.7 million is over 1/3 of the total Provincial subsidy requirement, it is the Committee's opinion that Edmonton subscribers and 'et' are assuming their fair share of the subsidy burden after the payment is received by 'et' under the Committee's formula.

SECTION II

INTRODUCTION TO THE DECISION OF THE ARBITRATION COMMITTEE

This Arbitration came into being as a result of a consensual agreement dated the 24th of April, 1985 (The Memorandum of Understanding) entered into between the Province of Alberta (hereinafter referred to as "the Province") and the City of Edmonton (hereinafter referred to as "the City"). Alberta Government Telephones (hereinafter referred to as "AGT") is a Provincial Government Crown corporation, and 'edmonton telephones' (hereinafter referred to as 'et') is an operating department of the City. In the present proceedings AGT and 'et' have had carriage of the cases of the Province and the City respectively. References to the Province and AGT on the one hand, and to the City and 'et' on the other, can accordingly be taken as inter-changeable except where the context renders this inappropriate.

The Committee membership originally included Dr. Hu Harries and Mr. Charles Dalfen appointed by the Province and the City, respectively, with Associate Chief Justice Tevie H. Miller acting as Chairman by the consent of both parties.

The Committee wishes to express its deepest regret over the untimely passing of Dr. Harries on August 26, 1986. Dr. Harries participated in all of the open sessions of the Committee hearings, but it has greatly missed the wise counsel and extensive background knowledge of the telecommunications industry which he would have brought to its final deliberations. The Committee has, however, been fortunate to obtain the participation and thoughtful consideration of Mr. Blaine Archibald, who was appointed by the Province, to succeed the late Dr. Harries.

As will be noted later in this report, the toll sharing dispute between AGT and 'et' has had a long-standing history. It stands to reason that if the problem had been of a simple nature it would have been resolved many years ago. From the outset of its deliberations, the Committee essentially adopted the mode of an adversarial approach between AGT and 'et'. As a result, it heard and read extensive evidence presented by both sides through expert witnesses, which was subjected to lengthy and searching cross-examination by counsel and, on occasion, by members of the Committee. It is still evident that the problem is complex and multi-faceted, for it concerns not only the relationship between AGT and 'et', but also impacts upon other Canadian toll carriers through AGT's membership in Telecom Canada.

During the course of the hearings, it became apparent to the Committee that there does not presently exist in the telecommunications industry in North America any one universally accepted method of sharing toll revenues between interconnecting telecommunications companies. At the root of the difficulty exists the complex problem of identifying and allocating costs as between long distance and local services. In addition, the industry continually changes due to technological advances and the pressures of market-driven competition.

It is against this background that the Committee has approached its task of finding a formula that meets the criteria set out in the Memorandum of Understanding and its attached Terms of Reference. The Committee expresses some doubt that any formula it devises could meet all of the objectives and/or address all the valid concerns of both sides. It also

notes the fact that the history of toll settlements throughout North America shows a consistent pattern of using surrogate figures and general averages as a practical way of reaching end conclusions. The Committee was faced with many of the same dilemmas, no matter what approach it took.

In order for the public to understand some of the telecommunication industry jargon and technical terms used in this Decision the Committee has prepared a brief description of most of the terms which appear in the body of the Decision. This glossary is attached as Appendix 1.

It is the aim and the ideal of every arbitration committee that consists of more than one person to arrive at a unanimous decision. The members of this Arbitration Committee earnestly worked towards this ideal but were unable to achieve a consensus on the formula which they could all adopt and put in place for the parties. It will be noted that the Committee members were able to reach agreement upon some of the identified issues. However, for the reasons which the majority and minority have each set out, it has become necessary to issue a majority and a minority decision. Under the Terms of Reference, where there is a difference of opinion between the members of the Committee, the decision of the majority is final and binding on both parties. Accordingly, for the sake of clarity and brevity, where the term "Committee" is used in Sections VII and VIII of the Decision, it generally refers to the majority views of Messrs. Miller and Dalfen and not the views of Mr. Archibald.

SECTION III

THE COMPANIES

'et' is a purely local telephone system. Its service area lies within the municipal boundaries of the City. An informative and detailed history of 'et' is contained in the City's main filing, (Exhibit 8). Briefly, it is the sole remaining local telephone system (once called mutuals) in Alberta, and in 1985 it served a residential population of some 560,000.

AGT is a telephone system that serves the 1.8 million people in the balance of the Province of Alberta. AGT has likewise detailed its history in its main filing, (Exhibit 57).

A very general comparison of the two companies may be made by reference to Table I following. This Table indicates the general sources of revenue broken down into "local", "toll" and "other", and includes statistics as to the number of lines, the number of employees and the payroll of each company. This Table is not intended to be illustrative of any question of efficiency. The Committee appreciates that a municipal system such as 'et' cannot be compared to a province-wide system such as AGT simply on the basis of comparing revenues, expenses and net income, nor can a comparison of the number of lines, the number of employees and the payroll outlay, do more than give a very general picture of the two companies.

The Telecom Canada settlement with AGT, referred to above, is arrived at by the application of the Revenue Settlement Plan (RSP) among the members of Telecom Canada. Telecom Canada is a consortium of telephone companies across Canada who have developed the RSP for the purpose of sharing toll revenues amongst its members. The operation of the RSP is fully described in both the City's and the Province's main submissions. At present 'et' participates in this toll revenue settlement to a degree because AGT is permitted to include 'et' as if it were a part of AGT in the calculation of its share of toll revenues under the RSP, AGT then remits to 'et' that portion of the RSP settlement which was attributable to the inclusion of 'et' in the calculation. A similar arrangement is in effect with respect to toll revenues resulting from traffic to and from Saskatchewan, British Columbia and the Northwest Territories.

Some of the very general comparisons of the two companies can be made by reference to the following information.

	Total Alberta	AGT as a %of total	'et' as a % of total
Revenues from toll	100%	99.4%	.6%
Revenues from local	100%	66.0%	34.0%
Expenses	100%	84.0%	16.0%
Number of access lines	100%	70.0%	30.0%
Number of employees	100%	86.0%	14.0%
Total payroll	100%	86.0%	14.0%

TABLE I

1985 'et' - AGT STATISTICS

	'et'	AGT
FINANCIAL ($000)		
Revenue:		
Local	$ 171,597	$ 331,799
Toll	3,946	686,806
Other	30,707	42,443
Uncollectables	--	(12,117)
Total Revenue	**$ 206,250**	**$1,048,931**
Expenses:		
Operating	$ 105,606	$ 556,033
Depreciation	57,099	182,918
Interest	42,912	290,933
Total Expenses	**$ 205,617**	**$1,029,884**
Other Income	--	52,167
Amortization of Contributed Capital	182	--
Amortization of Station Connection Costs	--	$ 22,998
Net Income	**$ 815**	**$ 48,216**
Total Plant Investment	$ 574,652	$3,015,739
Capital Expenditures	$ 41,630	$ 180,688
Long-Term Debt	$ 335,479	$2,203,983
Equity	$ 42,234	$ 109,279
EMPLOYEES AND PAYROLL AND ACCESS LINES		
Number of Employees	1,870	11,477
Total Payroll	$ 58,975	$ 372,435
Number of Access Lines	331,698	771,714

SECTION IV

THE TOLL DISPUTE

The dispute between 'et' and AGT as to the sharing of toll revenues first arose in 1916. In different forums the dispute has continued until this day. From 1916 until 1969 both parties took their traditional stands: 'et', that it was entitled to share in toll revenues, and AGT, that no sharing should be permitted. The broad justifications for their respective positions were simply that 'et' was offering services and providing equipment necessary to effect originating and terminating long distance calls in the City of Edmonton, and that it ought to share in the revenue thus produced; and AGT asserting that all the profits from toll were necessary to subsidize telephone services in smaller centers and rural areas at affordable rates to its subscribers.

In 1971 the Lester Commission (named after Alexander Lester, a retired Vice-President of Bell Canada, who served as Chairman) undertook to mediate the dispute which, at that time, included an issue (now resolved) concerning boundaries designating the areas of service. The majority recommendation of that Committee, as it concerns toll sharing, was that the two systems should merge through AGT's purchase of 'et'. This recommendation was not accepted by the City.

The following year a Joint Negotiating Committee was formed, consisting of the Minister of Telephones and two other Ministers on behalf of the Province, and the Mayor and two Aldermen on behalf of the City. Negotiations led to the enactment of the AGT-Edmonton Telephones Act (SA 1972, c.99). That Act contained provisions prohibiting AGT from entering into any toll sharing arrangement with the City, and freed the City from any obligation to contribute to the cost of service for those parts of the Province that were uneconomic to serve.

In 1983 a Joint Study Committee was formed under the chairmanship of The Honourable J.V.H. Milvain (referred to throughout the record of these proceedings as the "Milvain Committee"); and the report of that Committee was issued the same year. It contained the two "Milvain Principles" and, in addition, a recommendation that the two companies be sold to a public company which would be formed to replace both 'et' and AGT in the provision of telephone service in Alberta. While the main recommendation of this Committee was unacceptable to both sides, the two Milvain Principles spelled out in the report did result in some movement in the dispute. Those principles were:

> "Telephone companies are entitled to a share of the toll revenue generated, based on usage.
>
> In the case of Alberta telephone companies they accept the obligation to provide funds to finance telephone services which are not self-supporting."

The AGT-Edmonton Telephones Act of 1972 had dealt with the issue of sharing of toll revenues in s.7 as follows:

> "AGT has no power to enter into any agreement or arrangement with the City whereby any part of AGT's toll revenues from telephone calls originating or terminating in Edmonton may be paid to the City.

The City is not liable to pay to AGT any moneys as a contribution towards the costs of AGT's rural distribution system."

As a result of the recommendations of the Milvain Committee, Section 7 of the Act was repealed in 1985 and the following wording was substituted:

"AGT and the City are entitled to a share of the toll revenue generated in the City based on usage.

AGT and the City shall accept the obligation to provide funds to finance Alberta telephone services that are not self-supporting."

SECTION V

THE MEMORANDUM OF UNDERSTANDING AND THE TERMS OF REFERENCE

On April 24th, 1985, the City, represented by Alderman E.H. Leger, and the Province represented by Mr. A. Hiebert, MLA, entered into the Memorandum of Understanding (including the attached Terms of Reference), a copy of which forms Appendix 2 to this Decision.

Pursuant to the Memorandum of Understanding, this Committee was struck. There were some initial problems in respect to the appointment of a Chairman; however, these problems were resolved by the appointment of Associate Chief Justice Tevie H. Miller of The Court of Queen's Bench of Alberta. The City's nominee to the Committee was Mr. Charles Dalfen of Ottawa, who has been associated with the telecommunications sector for many years, served as Vice-Chairman of the CRTC, and is presently practicing law largely devoted to communications matters. The Government's nominee was Dr. Hu Harries of Edmonton, an internationally known and respected economist with special expertise in the telecommunications area, who also served on the Milvain Committee. It is a matter of public record that both Mr. Dalfen and Dr. Harries acted as consultants for their nominators prior to their appointments to this Committee.

After the completion of the public hearings, but before the Committee commenced its deliberative process, an event occurred which almost destroyed the work done to that date. Dr. Hu Harries died very suddenly of a heart attack on August 26, 1986. Both parties to the arbitration were anxious to salvage the many hours that had been spent accumulating the massive record which was at that time before the Committee, and, fortunately, this was made possible by the Province appointing Mr. Blaine Archibald to replace Dr. Harries. Mr. Archibald is an Edmonton lawyer, with an extensive background in commercial and regulatory law, who served as a member of the Alberta Public Utilities Board for some years. Mr. Archibald has had access to approximately 4000 pages of transcript from the public hearings, several hundred exhibits, 412 interrogatories filed by the parties, and extensive written arguments filed by both parties. It has taken him several weeks of intensive work to become familiar with the record.

Early in the proceedings Counsel entered into an agreement in respect to the members of the Committee. In brief, this agreement permitted the nominated members to continue consultation with their nominators during the course of the proceedings and the parties mutually waived any objection which might be taken by virtue of any association Mr. Dalfen or Dr. Harries may have had or might in the future have with the City or the Province respectively. Upon appointment of Mr. Archibald to replace Dr. Harries, it was agreed that this arrangement would continue, extending to Mr. Archibald the same status under the agreement as that previously held by Dr. Harries. The agreement is marked as Appendix 3 to this Decision.

It was also mutually agreed and noted in the record that the contacts between the parties and their respective nominees would cease during the deliberative phase of the proceedings, which commenced October 16th, 1986.

Mr. John D. Rooke and Mr. Peter J. MacIntyre of the Calgary law firm of Burnet, Duckworth and Palmer represented the Province throughout the Arbitration; and Mr.

Wayne Drewry Q.C. of the Edmonton law firm of Emery Jamieson, and Mr. James Pratt of the City Solicitor's office, represented the City.

SECTION VI

THE COMMITTEE'S PROCEEDINGS

The Committee commenced public hearings on the 5th of December, 1985 and procedural matters were dealt with on that day as well as at two subsequent sessions. The actual presentation of evidence commenced on the 24th of March, 1986 and continued, with some breaks, through until the 4th of July. One additional session was convened on October 16th, 1986 to introduce Mr. Archibald and to receive concurrence with respect to his appointment. In all there were 41 days of hearings and the transcript ran to 4,186 pages.

The Committee, very early in its tenure, took the position that a procedure should be developed which would accomplish these objectives:

1. It would encourage the parties to take a specific stand in respect to the nature of the formula which the Committee was mandated to develop: that is, that 'et' would develop the AAB formula, both as to its rationale and the results for the first three months of 1985; AGT would develop the CRT formula, again explaining its methodology and the results for the first three months of 1985; and Mr. Archibald (as it later developed) would develop the cost-based formula, explaining its application to the Alberta scene and the results for the first three months of 1985.

2. It would give the parties the greatest opportunity to exchange information in preparation for the formal public hearings.

3. It would require the parties to have prepared a written statement of the direct evidence of the experts they intended to call, and file that evidence with the Committee and each other well before the commencement of the hearings.

4. It would leave the Committee free to require answers to any interrogatories it might direct to the parties at any time during, before or after the public hearings.

5. The presentation of both oral and written evidence would essentially be done in an adversarial manner, i.e., each side would lead the evidence they desired the Committee to accept and the other side could cross-examine the witness or file opposing argument. At no time did the Committee have its own counsel to advise or conduct examination of witnesses.

It was agreed by the parties that should the procedures adopted make it unreasonable to expect this Decision to be made within the time stipulated within the Terms of Reference, namely, six months from the date the Chairman was appointed, that neither would object to any extension the Committee required. In futherance of the objectives noted above, the Committee held its first public session on December 5, 1985 and, as a result of that meeting, an agenda of filings and interrogatories was agreed upon. The Committee is pleased to note that in the main the parties have maintained the schedule thus developed. However, the sittings, originally set to begin on March 17, were adjourned until March 24 because of difficulties in documenting the information required.

The sequential order of filings was as follows:

1. The City filed its points of claim on January 13, 1986, setting forth its general approach in respect to its proposed formula.

2. The City then filed its main submission, including the written testimony of its proposed experts, on January 27, 1986.

3. The Province then directed interrogatories to the City on the basis of the two previous filings, and received responses from the City in respect thereto. Indeed, this interrogatory process continued throughout the course of the proceedings.

4. The Province filed its points of claim on February 17, 1986, in a manner analogous to (1) above.

5. The Province filed its main submission, again analogous to (2) above, on February 24, 1986.

6. The City then directed interrogatories to the Province in the same manner as the Province did in (3) above.

7. The main hearings then commenced on March 24, 1986, with the prepared evidence submitted as exhibits, and with the City proceeding first.

8. In addition to the technical evidence of the expert witnesses produced by both sides, the Committee was pleased to receive special oral statements from His Worship Mayor Laurence Decore of the City of Edmonton; from Mr. Harry Hobbs, Chairman of the Alberta Government Telephones Commission; and from His Worship Mayor Ralph Klein of the City of Calgary.

9. After the public hearings concluded, the Committee found it desirable to develop a list of issues, and by letter of June 5, 1986, the parties were asked to particularly address those issues in their final written arguments. A copy of this list of issues forms Appendix 4 to this Decision.

10. Also on June 5, 1986 the Committee issued to the parties a 10-point interrogatory. The parties filed their initial responses on June 10, 1986 and their comments on each other's initial responses on June 25, 1986.

11. Both parties filed their main arguments on August 8, 1986, in the time stipulated by the Committee; and subsequently filed their replies to the main arguments, both on October 14, 1986.

12. Upon the appointment of Mr. Archibald to replace Dr. Harries, further developments occurred in respect to the filings. Firstly, Mr. Archibald addressed a letter to the parties under date of December 2, 1986 respecting a third possible formula using a cost-based methodology requesting the parties to comment thereon; and the parties did so under date of December 19, 1986.

13. Finally, the parties responded to each other in respect to their replies noted immediately above by submissions dated January 9, 1987. With the receipt of these last submissions, the filings were complete.

The Committee had contemplated retaining an expert to assist in the mathematical aspects of the suggested formulae. However, by agreement with counsel, the City made Mr. Barry

Baptie of 'et' available to the Committee, and likewise the Province made Mr. E. Fyles available. On January 19, 1987, these two gentlemen appeared before the Committee and assisted in the clarification, identification and development of information deemed necessary for the suggested formulae.

At the request of the Committee two letters were submitted to it by 'et' during the month of January, 1987. One, dated January 13th, 1987, dealt with information on ICA payments; and the other, dated January 13th, 1987, estimated annual message counts and revenues for 1985. Copies of both letters were made available to AGT.

It is to be particularly noted that the fact that the City commenced its case first does not imply that its position was that of an applicant or that any special burden of proof rested on the City. The order of presentation was merely a matter of convenience.

In order to give assistance to the Committee in the management of the routine paperwork, to accept and distribute the filings, and to arrange for the hearings, the Committee appointed an Executive Assistant, Mr. S.M. Barnett, who has acted in this capacity throughout.

During the hearing 122 exhibits, comprising several thousand pages, were filed by the parties. Some of these exhibits were voluminous, as, for example, the material which was before the Milvain Inquiry (Exhibit 9, two volumes), and the Inter-Connecting Company Agreement (Exhibit 100, two volumes). Additionally, the exhibits contained the written testimony of the in-house experts as well as the independent experts called by each side. A complete listing of the exhibits filed before the Committee forms Appendix 5 to this Decision.

Several technical procedural matters were dealt with by the Committee, particularly during the early part of the proceedings. Some of those procedural issues deserve mention.

On November 26, 1985, Alderman Dale Hodges, Chairman of the Gas and Power Committee of the Calgary Municipal Council, wrote to the Chairman expressing the interest of the City of Calgary in the issues before the Arbitration Committee, and in his letter he said:

> "As Chairman of the City of Calgary Gas & Power Committee, I wish to advise you of the City's interest in the issues and urge you to provide the City with an opportunity to express its views and concerns to the Arbitration Committee and to comment on the positions taken by other parties."

The Committee held a pre-hearing conference on December 5, 1985, at which time Mr. R. Goss, Counsel for the City of Calgary, made formal application and argument that the City of Calgary be given status before the Committee as an intervenor, and that application was addressed by Counsel for the City of Edmonton and Counsel for the Province of Alberta. The Committee's ruling, in part, was as follows:

> "The application by the City of Calgary for any form of special status in this consensual arbitration between the Province of Alberta and the City of Edmonton is refused."

There were two understandings attaching to this denial of status. The first was, in the words of the Chairman's ruling:

"It is our opinion that groups such as the City of Calgary, if they feel that there is some special area that they wish to have brought before the Committee, or cross- examined on, certainly have the opportunity to approach either Mr. Drewry or Mr. Rooke to ask if they would explore the areas of concern evidenced by any of the interested groups."

The second understanding, again in the language used by the Chairman, was:

"By way of the final part of our ruling, it is our view that once the City of Calgary or other interested parties have seen the position of both sides, and are acquainted with the situation better than they may be today, they may wish to make another application later on in the proceedings to attempt to convince us that there is some special point of view that has not been covered by other submissions through Mr. Drewry and Mr. Rooke."

On January 14, 1986, Mr. Goss wrote the Committee and advised the Committee of the position the City of Calgary would take in light of the circumstances outlined above. Mr. Goss' letter read, in part:

"We would be pleased to cooperate with the Province with respect to any matters that are to be submitted to the Arbitration Committee."

Mr. Goss also requested that the City of Calgary be supplied with all filings received by the Committee, and the Committee has been pleased to forward this material to Mr. Goss as it was received.

As a result of Calgary's application, the Committee, as noted previously, accepted an oral statement from His Worship, Mayor Ralph Klein of Calgary, on May 26, 1986, which is to be found in the transcript at page 2508.

The exchange of interrogatories brought about another procedural issue. Each party declined to answer certain interrogatories and the Committee was forced to rule on these matters. The grounds for refusal to answer fell under six categories, that is to say:

(i) Refused because of alleged confidentiality of the information.

(ii) Refused because it would be expensive or time consuming to produce it.

(iii) Refused because it is alleged that the information asked for was irrelevant.

(iv) Refused because it is alleged that the information was not in the possession of the party being asked.

(v) Refused because the request was not considered a proper interrogatory or that the information was available to the party asking from other sources.

(vi) Refused because it was alleged the records were not kept on a monthly basis, or that the records had not been brought up to date.

Appearances by counsel before the Chairman resulted in many of these problems being ironed out by consent. There were, however, three issues which remained unresolved:

(i) The production of the exhibits filed before the Milvain Inquiry.

(ii) The production of certain material which the responding party claimed was privileged by virtue of confidentiality.

(iii) The absence of records necessary to calculate the results of the application of an Alternate Appendix B formula.

In respect to the Milvain material, the Province took the position that the Chairman of that Committee had extended a blanket of secrecy over the whole of that proceeding and that, therefore, the material given under such circumstances was not available to anyone. The City took the opposite view, first denying that any such protection had been extended, and secondly, submitting that, in any event, the material was so germane to the present Inquiry that it ought to be produced. The Committee ruled that this material was admissible in the present arbitration, and consequently the Milvain material was filed in two volumes as Exhibit 9 to the proceedings.

In respect to the confidentiality and privilege issue, this problem was resolved by the agreement of third parties to waive any rights to confidentiality or privilege and to permit the Committee to accept those parts of the disputed documentation necessary for the Committee's purposes. The Committee particularly acknowledges the cooperation in this respect received from AT&T International Advisory Services Inc. and from Northern Telecom Canada Limited.

The problem respecting the difficulty of producing the necessary records to calculate the AAB was resolved by the parties agreeing to accept surrogate figures which the experts on both sides agreed would be acceptable. The Committee appreciates the helpful and positive attitude exhibited by both sides in this respect.

SECTION VII

THE ISSUES

Each of the issues listed in Appendix 4 has been carefully considered by the Arbitration Committee. This section of the Decision outlines what the Committee understands to be the positions of the Province and the City on each of the identified issues, as well as the Committee's conclusion on each issue. Where Mr. Archibald disagrees with Chairman Miller and Mr. Dalfen on any of these conclusions involving a particular issue, he has dealt with such disagreement in his minority report.

The Issue

(1.1) What is meant by "toll revenues", and specifically does it include interexchange, MTS, TWX, EAS/EFRC, and/or local exchange revenues?

The City's Position

The City's position in respect to the definition of "toll revenues" applicable to these proceedings was that it included all telecommunications services extending beyond the local exchange area, including interexchange, MTS, TWX and EAS/EFRC, but excluding any revenues from local services. ('et' main argument, p.9).

The Province's Position

The Province defined "toll revenues" as those revenues associated with the provision of MTS as set out in AGT's General Tariff - Basic Services, including inter alia, MTS, 800 service, WATS and Zenith. Briefly, it would include only MTS and MTS substitutes that use the PSTN. It would exclude interexchange, EAS/EFRC and TWX (AGT main argument, p.6.2-1 et seq.).

The Committee's Position

Having carefully considered the evidence presented on the point and the extensive arguments of the parties ('et' main argument p.9-16; AGT main argument p.6.2-1 to 19; 'et' reply argument p.2-12; and AGT reply argument p.6.2.1-1 to 3), the Committee accepts 'et's definition.

The Issue

(1.2) In the context of this arbitration what is meant by the word "sharing", and specifically may the Committee develop or select a formula that results in one party receiving a zero or minus share of toll revenues?

The City's Position

The City's main argument stated, in part:

"It is clear from the ordinary meaning of the word "sharing", as well as from judicial interpretation and industry practice, that sharing in this context contemplates the division of a specific pool of toll revenues into parts and the apportionment of those parts or shares between the telephone companies. As long as there is a pool of toll revenues generated in the City of Edmonton, sharing will involve each of the telephone companies receiving some positive share or portion of those revenues.

This interpretation is further supported by the first Milvain principle and Section 7(1) of the AGT-Edmonton Telephones Act, which states that 'et' is 'entitled to a share' of this toll revenue. To give 'et' a 'zero' share or a 'minus' share is to give no share at all and to contravene the Mandate of the Committee and the law embodied in Section 7(1) of The AGT-Edmonton Telephones Act. ('et' main argument, p.17)

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It is clear from the dictionary definitions, legal definitions, and industry practice that the 'sharing' of toll revenues requires each of the parties to receive some positive part or share of the specified pool of toll revenues. For one party to receive a zero or minus share is to receive no share at all. A determination to provide one party with no share would be equivalent to a decision not to share toll revenues. Such a decision would be contrary to the Arbitration Committee's express mandate." ('et' main argument, p.19).

The Province's Position

The Province's position in respect to this issue was:

"'Sharing' is defined in Section 6.2.7. It includes that portion of 'toll revenues generated in the City of Edmonton' (as defined by ALTA) that represent the causal cost of providing toll-related facilities that vary with usage in the provision of toll service (as defined by ALTA) and all other 'toll revenues generated in the City of Edmonton' that remain after financing 'telephone services which are not self-supporting' — such sharing is then based on usage. Each party should receive its causal cost of toll-related facilities that vary with usage as a minimum share of toll revenue." (AGT main argument, p.1.7-2).

The Committee's Position

The Committee accepts the ordinary meaning of the word "sharing", and, inasmuch as it refers to the sharing of specific revenues, viz. those generated by toll services in the City of Edmonton, it must result in a postive portion of those revenues to both parties.

The Issue

(1.3) What is meant by the words "generated within the City of Edmonton"?

The City's Position

The City's position was that "generated within the City of Edmonton" means those toll revenues derived from toll services originated or terminated in the City of Edmonton. Both "originated" and "terminated" must be included because the local 'et' system is used in both types of calls. ('et' main argument, pg.21).

The Province's Position

The Province's position was that "generated within the City of Edmonton" includes all revenue from toll (as defined by AGT) originating in the City of Edmonton and collected from 'et' customers, after payment of settlements to carriers outside of Alberta. (AGT main argument, p.1.7-2).

The Committee's Position

The Committee considers that the term is meant to encompass the revenues from all toll messages which require the use of 'et's services and facilities, whether such messages are billed by 'et' or not. At the same time the Committee considers that it may select a toll sharing formula that relates only to certain of the above categories of message as proxies for all of the toll messages generated within the City of Edmonton.

The Issue

(1.4) What is meant by a "practical" toll sharing formula?

The City's Position

In defining what a "practical" toll sharing formula should be, the City said:

"...the formula chosen should be logical in basis, free from controversies of interpretation, predictable and stable with respect to revenue shares derived, flexible and adaptable in its ability to meet changing conditions, unaffected by internal management decisions and accounting policies of either telephone company, and understandable and auditable." (Exhibit 8, p.V-22).

The Province's Position

The Province's criterion for a "practical" toll sharing formula was:

"One that is consistent with the technical sophistication of engineering economics administered by modern telecommunication utilities regulation." (AGT main argument, p.1.7-3).

The Committee's Position

The Committee considers that a "practical" toll sharing formula should embody as many as possible of the factors set out in the City's position stated above.

The Issue

(1.5) What is meant by "fair and equitable treatment for all Albertans"?

The City's Position

In defining what is meant by "fair and equitable treatment for all Albertans" the City argued:

> "The formula must produce a division of toll revenues that treats all Albertans fairly and does not result in any particular segment of the population being either mistreated or given an unjustified preference." ('et' reply argument, p.22).

The Province's Position

The Province said in its definition of "fair and equitable treatment for all Albertans":

> "It is treatment which is substantially identical for telecommunication subscribers in substantially similar circumstances consistent with maintaining the universality of telecommunications service at generally affordable rates." (AGT main argument, p.1.7-3).

The Committee's Position

In the opinion of the Committee this phrase means that the method of sharing which the Committee directs shall not, in its operation or effect, be discriminatory towards any segment of the Alberta customers of the two telephone systems.

The Issue

(1.5.1) Does it involve the maximization of toll revenues coming into Alberta?

The City's Position

In answering the question "Does it involve the maximization of toll revenues coming into Alberta?", 'et' said:

> "Yes, telephone subscribers in other parts of Canada should not benefit from inequitable treatment of Albertans and Albertans as a whole should not suffer from such treatment." ('et' main argument, p.28: 'et' reply argument, p.24).

The Province's Position

As to the maximization of toll revenues coming into Alberta, AGT said:

> "Yes, to the limit of existing rules of settlements currently in force between AGT and Telecom Canada or as approved by independent regulatory tribunals." (AGT main argument, p.1.7-4).

The Committee's Position

The Committee considers that, while the maximization of toll revenues coming into (or staying in) Alberta would be an admirable result, the formula should not be structured with this goal as a primary criterion. However, the Committee feels that the use of a formula that uses recognized industry concepts may assist AGT in its future negotiations with the other members of Telecom Canada.

The Issue

(1.5.2) Does it call for a result that is consistent with other independent company settlements in Canada and the US?

The City's Position

In this respect, 'et' said:

"While industry norms are not determinative, they do provide some measure of fairness and experience against which to test the proposed formula." ('et' reply argument, p.31).

The Province's Position

AGT argued in reply to the question as to whether or not the selected formula should be consistent with other independent company settlements in Canada and the U.S.:

"No, as it relates to the U.S. As to Canada, yes, but subject to the effect of the RSP." (AGT main argument, p.1.7-4).

The Committee's Position

The Committee is of the opinion that the selected formula should be consistent with other independent settlements in Canada, but it is not persuaded that it must be consistent with the most recent U.S. settlements, because of the radical changes that have occurred in the U.S. telecommunications system, including full interstate long distance competition and the divestiture of AT&T.

The Issue

(1.5.3) In regard to changing circumstances in the Alberta telecommunications environment,

a) what changes in the Alberta telecommunications environment are likely to have an impact upon the formula?

b) to what extent should consideration be given to the ability of the formula selected to adapt to such changes?

The City's Position

Generally with regard to changing circumstances in the Alberta telecommunications environment, 'et' said:

"The record does not disclose the likelihood of any changes in the Alberta telecommunications environment taking place that will have an impact upon the revenue sharing formula. ('et' reply argument, p.43).

The AC should proceed with its deliberations on the basis that the existing telecommunications environment in the Province will endure for the foreseeable future. ('et' reply argument, p.49)."

The Province's Position

The changes in the Alberta telecommunications environment which AGT argued are likely to have an impact upon the formula are:

"Terminal competition, interexchange competition, toll by-pass, rate rebalancing, regulatory decisions of independent regulators." (AGT main argument, p.1.7-4).

The Committee's Position

In the Committee's view, the related issues of toll competition, rate rebalancing, and by-pass require further discussion.

Toll Competition, Rate Rebalancing And By-Pass

The City's Position

It was the City's position that toll competition has been extremely limited in Canada and even more so in Alberta. Based on recent CRTC decisions and Ministerial announcements both federally and provincially, the City argued that this is likely to continue to be the case, notwithstanding developments in the U.S. The City rejected any inference drawn from 'et's proposed acquisition of a toll switch to the effect that Edmonton message toll traffic would be competitive, on the basis of the City's stated commitment that AGT will remain the sole provider of MTS/WATS services to the City.

While the City recognized that certain steps have been taken in the direction of lowering long distance rates, particularly in areas subject to CRTC jurisdiction, it argued that it is the firm policy of governments across the country to keep local rates as low as possible through continued subsidies from toll services.

With respect to by-pass it was the City's position that AGT's concerns are exaggerated, on the basis that AGT enjoys approximately 85% of the market for non-interconnected toll services and 100% of the interconnected toll services market. (City reply argument, pp.43-49).

The Province's Position

It was the Province's position that pressures for increased competition are coming from both Canada and the U.S. and that the current competitive situation will change dramatically in the foreseeable future. This will, the Province argued, result in lower toll rates, and in toll services having a much lower level of profitability, thereby limiting the subsidy available for non-self-supporting services.

The Province contended that rate rebalancing is part of the policy of AGT and is consistent with Alberta government policy.

As far as by-pass is concerned, the Province contended that there is no evidence for the City's figures. (AGT reply argument p.2.4-1 to 2).

The Committee's Position

It is the Committee's position that the likelihood of extensive toll competition in the forseeable future in Alberta is quite remote.

The Committee does consider that cost incentives and technological developments may lead to an increase in message toll service by-pass - including by-pass using AGT interexchange services - by certain large business customers, which could in turn place downward pressure on message toll rates.

At the same time, the Committee believes that toll services in Alberta will continue to be profitable and to provide a significant source of subsidy to non-self-supporting services for the foreseeable future. The Committee notes in this connection the fact that the Milvain principles have recently been enacted into law.

The Issue

(1.5.4) As regards the difference between the costs of operating AGT's telephone system in Calgary on a stand-alone basis and AGT's local revenues in Calgary (the Difference)

a) To what extent should the Difference be considered in determining the City of Edmonton's share of toll revenues generated in Edmonton?

The City's Position

It was the City's position that Edmontonians should be treated in a similar manner to other Albertans in comparable circumstances. Properly calculated, the Difference should produce an amount that represents the gross contribution from toll revenues received by Calgarians towards the cost of local service in that city. This amount could therefore be used as a measure of what might also constitute a fair level of toll revenue for Edmontonians to receive. ('et' main argument p.43).

The Province's Position

It was the Province's position that the Difference should be considered only "in the context of fairness and equity for all Albertans" (AGT main argument p.1.7-5).

The Committee's Position

The Difference, in the opinion of the Committee, is a significant measure of the reasonableness of the City's claim on toll revenue, and this opinion is buttressed by the recognition on the part of both parties that the two cities are comparable. This is, of course, only true when reasonable assumptions are made to hypothesize what Calgary's costs and revenues would be if that system were operated on a stand-alone basis. What is being sought here is simply a measure of how much benefit Calgary subscribers enjoy as a result of being part of AGT, and thus sharing in toll revenues, which they would not otherwise enjoy if the Calgary telephone system were operated on a stand-alone basis like 'et'.

The Issue

(1.5.4) "As regards the difference between the costs of operating AGT's telephone system in Calgary on a stand-alone basis and AGT's local revenues in Calgary (the Difference)

b) should the calculation of the Difference include:

(i) the expenses and revenues from Calgary terminal services?

The City's Position

It was the City's position that the expenses and revenues from Calgary terminal services should not be included in a calculation of the Difference, for two basic reasons. One is that terminal services are competitive and hence part of the non-basic services of AGT that must, in aggregate, make a positive contribution to the company's monopoly services. Since the net revenues from Calgary terminal services may have to be available to contribute to that overall positive contribution from non-basic services, they cannot be relied on to also make a contribution specifically to Calgary. The second reason is that as terminal revenue and expenses fluctuate with market conditions, they may not be available in any given year to be drawn upon as a source of contribution for Calgary. ('et' main argument p. 45-6)

The Province's Position

It was the Province's position that revenues and expenses associated with terminal service should be included in the Calgary Study since they provide a positive contribution to Calgary. Equivalent figures are also included in 'et' financial statement (AGT main argument, p. 1.7-6 and 5.4-6).

The Committee's Position

It is the Committee's position that the effectiveness of the Calgary comparison depends upon the Calgary system being depicted in as similar a manner as possible to 'et'. Since 'et's terminal operations are an integral part of its overall operations, and since its terminal revenues and expenses form an undifferentiated part of its financial statements, Calgary's terminal expenses and revenues should also be included as suggested by the Province.

The Issue

(1.5.4) As regards the Difference between the costs of operating AGT's telephone system in Calgary on a stand-alone basis and AGT's local revenues in Calgary (the Difference)

b) should the calculation of the Difference include:

(ii) the local costs of jointly providing toll services?

The City's Position

The City's position was that the local costs of jointly providing toll service must be included in a calculation of the Difference. A large part of the costs of a local exchange company is incurred for facilities, such as central office switches and outside plant, that are jointly used by toll and local services, but that are necessary if the local system is to function at all. The City's position, therefore, was that to exclude these costs would be to provide a "hidden subsidy" to Calgary that is not available to 'et', all of whose joint costs show up in its financial statements.

The Province's Position

The Province assumed that the Committee's question referred to the "traffic sensitive causal costs associated with the carriage of toll traffic in the local network", and took the position that such costs should be excluded from a calculation of the Difference (AGT main argument p.1.7-6).

The Committee's Position

In the Committee's view all local and joint local/toll costs of a Calgary stand-alone system must be included, as advocated by the City.

The Issue

(1.5.4) As regards the difference between the costs of operating AGT's telephone system in Calgary on a stand-alone basis and AGT's local revenues in Calgary (the Difference)

b) should the calculation of the Difference include:

(iii) non-telecommunication revenues?

The City's Position

It was the City's position that non-telecommunications revenues should be excluded from a calculation of the Difference because the purpose of the Calgary Study is to calculate the difference between the costs of operating AGT's telephone system in Calgary on a stand-alone basis and AGT's local revenues in Calgary. Non- telecommunications revenues are simply not "local revenues". ('et' reply argument, p.48)

The Province's Position

The Province's view was that such revenues should be included to the extent that there is some "causal linkage" in relation to local investments or local revenues (AGT main argument, p.1.7-6).

The Committee's Position

The Committee considers that since non-telecommunications revenues are available to a stand-alone system to defray its costs, those revenues should be included for Calgary, as suggested by the Province.

The Issue

(1.5.4) As regards the difference between the costs of operating AGT's telephone system in Calgary on a stand-alone basis and AGT's local revenues in Calgary (the Difference)

b) should the calculation of the Difference include:

(iv) toll-related revenues?

The City's Position

The City considered that since the Difference is meant to measure the total contribution from toll revenues to local costs, including toll revenues would be to understate the Difference ('et' main argument p.49).

The Province's Position

The Province assumed that "toll-related revenues" referred to the local loop revenues associated with private lines and considered that such revenues must be included since the total costs associated with local loops were included. (AGT main argument p.1.7-6)

The Committee's Position

The Committee acknowledges that the local loop revenues associated with private lines that the Province refers to could well be part of a stand-alone Calgary system's revenues. It considers that they are equivalent to part - and are indeed virtually equal in amount to the total - of toll-related ICA payments received by 'et'. Nevertheless, the Committee considers that they are toll revenues, not only in terms of their classification in the AGT system of accounts, but also because of the definition of "toll" adopted by the Committee. Since one of the purposes of the Calgary study is to measure the contribution from toll revenues, the Committee considers that all toll revenues, including local loop revenues associated with private line services, should be excluded from a calculation of the Difference, as proposed by the City.

The Issue

(1.5.4) As regards the difference between the costs of operating AGT's telephone system in Calgary on a stand-alone basis and AGT's local revenues in Calgary (the Difference)

b) should the calculation of the Difference include:

(v) other considerations?

The City's Position

In its Argument, the City stated that since AGT had prepared the Calgary study using only causal costs, unless a reasonable portion of AGT's common costs were allocated to Calgary, the Difference would be understated. ('et' main argument pp. 49-50). Examples of common costs which are incurred for the effective operation of the system, but not as a direct result of providing a particular service, include the cost of senior executives, head office, accounting and general administration.

The Province's Position

The Province agreed that to obtain a stand-alone figure a portion of AGT's common costs must be allocated to Calgary. However, as is indicated below, the Province differed on the amount that should be so allocated. (AGT reply argument p.5.4.1-4)

The Committee's Position

The Committee agrees with the parties.

The Issue

(1.5.4) As regards the difference between the costs of operating AGT's telephone system in Calgary on a stand-alone basis and AGT's local revenues in Calgary (the Difference)

c) on the basis of detailed analyses of the Province's and the City's calculations, what is the Difference?

Table I on p.52 of the City's main argument which is reproduced below as Table II of this Decision, presents, in tabular form, the differences between the Province's 1984 Calgary study, as set forth in ALTA ('et') 20 and the City's 1984 Calgary study, as set out in 'et' (Committee) 3(ix). The discussion that follows is divided into three parts dealing, respectively, with joint plant costs, general and administration (G & A) and pension expenses, and a summary of the Difference.

TABLE II

1984 CALGARY STUDY - STAND-ALONE BASIS

($-000)

	AGT 1984 Calgary Study	'et' 1984 Calgary Study	Difference
Revenues	**$207,333**	**$191,560**	**$(15,773)**
Expenses			
Depreciation	53,713	59,535	5,822
Maintenance	39,287	43,786	4,499
Traffic	1,486	1,486	--
Commercial & Marketing	21,527	21,527	--
General & Administration	21,130	56,770	35,640
Property & Business Taxes	3,611	4,886	1,275
Pension Fund	5,438	--	(5,438)
Total Expenses	**$146,192**	**$187,990**	**$ 41,798**
Net Contribution from Operations	61,141	3,570	(57,571)
Other Income	13,214	775	12,439
	$ 74,355	**$ 4,345**	**$(70,010)**
Interest & Other Deductions	60,135	70,173	10,038
NET CONTRIBUTION	**$ 14,220**	**$(65,828)**	**$(80,048)**

Joint Plant Costs

The City's Position

In 'et' (Committee) 3(ix), the City took the position that in order to evaluate the Calgary system on a stand-alone basis, the amount of investment in jointly used facilities which had been excluded by the Province using RSP factors, had to be added back, as did the investment-related expenses of such joint use facilities, including depreciation, maintenance, property and business taxes, and interest. The calculations related to these expenses are set forth in Schedule I to 'et' (Committee) 3(ix) and are summarized on Table III at p. 59 of the City's Argument. The figures in question are set forth on the lines of Table I above related to depreciation, maintenance, property and business taxes, and interest and other deductions. They total $21,634,000.

The Province's Position

The Province's position was that the City had included in its calculations certain dedicated toll investment that 'et' did not have. As regards the investment 'et' did have, it was the Province's position that corresponding revenues should also be included. (AGT reply argument, page 5.4.1-3)

The Committee's Position

In the Committee's view, the Province's first contention is not supported by the evidence. Nor does the Committee agree with the Province's second contention since, while toll revenues may well affect the costs in question, to include them would distort the measure of the Difference. For reasons stated earlier, the Committee considers that joint plant costs should be included in the Calgary study, and accepts the City's method of calculating those costs as well as the resulting figures.

General and Administration and Pension Expenses

The City's Position

It was the City's position that since the AGT study was based on causal costs, a fair share of the common G & A and pension costs that a stand-alone system would incur have not been allocated. Schedule III to 'et' (Committee) 3(ix) demonstrates how the Calgary G & A and pension expenses were recalculated by 'et'. It was the City's position that such recalculation was justified for two reasons. One is that it utilized the same allocation method as that used by AGT in its own individual system studies. The other is that it compared favourably with the G & A and pension expenses for the entire company, as shown in Table IV at page 67 of the City's argument. The resulting difference, netting out the G & A and pension lines, is some $30,202,000. ('et' main argument, pp. 66 and 67)

The Province's Position

The Province, in its reply argument, referred to Exhibit 108, which alleged certain errors on 'et's part, related to the investment figures and administration ratios utilized. In addition, the Province did not consider that there is any reason why the figures for Calgary should be nearly double those for Edmonton. The Province acknowledged, however, that its G & A

and pension expenses might be increased by $9.6 million to equal those of 'et'. (AGT reply argument, p. 5.4.1-7)

The Committee's Position

The Committee, on the basis of the record before it, can find no fault with the methodology employed by the City. Nor has the Committee been persuaded by the material in Exhibit 108 as to the errors alleged by the Province. At the same time, the Committee has some difficulty with the magnitude of the resulting G & A and pension figure, particularly in comparison to that of 'et'. While the Committee notes the relatively high investment per line and employee per line figures of AGT as set forth in Exhibits 94 and 92, it nevertheless considers that the $56,770,000 figure prepared by the City is somewhat excessive. Since the evidence before it indicates that G & A and Pension Expenses for AGT on a company-wide basis amount to some 27% of total operating expenses, the Committee has decided to reduce the City's suggested figure to $49 million, representing 27% of the (new) figure for total Calgary operating expenses of $180,220,000. This would result in a net G & A and pension difference of $22,432,000 rather than $30,202,000.

Summary of the Difference

The Committee's Position

Since the positions of the parties on the elements comprising the Difference have already been reviewed, the Committee is in a position to summarize its overall position. The Committee notes that while the City prepared calculations of the Difference with terminal revenues and expenses excluded ('et' (Committee) 3(ix), p.10), its Table I reproduced as Table II above represents the City's position with terminal revenues and expenses included in the calculations, consistent with the Province's position and that which the Committee has adopted.

In summary, the Committee considers that the net contribution figure of $14,220,000 put forward by AGT should be reduced by $21,634,000 in respect of joint costs, and by a further $22,432,000 in respect of G & A and pensions, for a total reduction of $44,066,000. The Committee considers that while, as noted earlier, toll private line revenues should be excluded from the calculation, and hence that $15,773,000 should be removed from the revenue figure, the $12,439,000 of other income removed by the City should remain as part of the calculation. This leaves a net contribution figure of $45,619,000 as the Difference, to be recovered from toll revenues. It is noted, however, that since the $15,773,000 of toll-related revenues removed would be available to the stand-alone Calgary system, under an arrangement comparable to that enjoyed by 'et', under the ICA, $29,846,000 or the Difference would have to be made up for by other toll revenues.

The Issue

(1.6) What does the first Milvain principle mean, and specifically the term "usage"?

The Committee considers that as the other terms in the first Milvain principle have been dealt with earlier in this part, it is only the term "usage" that requires the Committee's interpretation at this point.

The City's Position

'et's comments with respect to the word "usage" were:

"The principle recognizes the use made of the 'et' local system in the provision of toll service to and from Edmonton and states that the City's share of toll revenue shall be based on such usage. Since the usage will vary with the number and nature of the calls originating and terminating in Edmonton, 'et's share will vary. A share consisting of a fixed amount of the toll revenue is not contemplated." ('et' main argument, p.71).

The Province's Position

As to the term "usage" as found in the first Milvain principle, AGT said:

"AGT defines 'usage' as the toll calling that generates traffic sensitive causal costs of providing toll service. This principle means that the sharing should be based on the extent to which usage causes additional costs." (AGT main argument, p.1.7-7).

The Committee's Position

A division of toll revenue can be based on a number of factors, including the respective costs of the parties (traffic-sensitive or otherwise) and the volume of traffic interchanged.

In the Committee's view, while costs may well relate to usage, this relationship is neither entirely direct nor clearly identifiable. It involves a number of subjective judgments of cost factor identification and allocation, which in turn call for the use of other criteria.

The Committee considers that the volume of messages interchanged is a more direct and identifiable measure of usage, and that it accords more closely with the usual meaning of the term.

The Committee notes that traffic volume which reflects both the number and duration of messages interchanged can be expressed through averages, which may also include a revenue element to take into account rate differentials based on such factors as distance and time of day and week.

The Issue

(1.7) What does the second Milvain principle mean, and specifically the phrases "to finance" and "telephone services which are not self-supporting"?

For purposes of dealing with this issue in the discussion that follows, the Committee has utilized the four following subheadings:

- toll profitability
- the inclusion of non-basic or competitive network toll in the amount available for subsidy
- services which are not self-supporting
- quantification of the subsidies required.

Toll Profitability

The City's Position

The City's position was that toll service is profitable in Alberta, as elsewhere in Canada; that the level of toll profitability in Alberta can reasonably be estimated at 60% overall and at 70% in respect of toll revenues generated in Edmonton; and that toll revenues can therefore provide a source of profit or contribution to finance services that are priced below their cost (City main argument at p.76-7, City reply argument, p.24-5). In support of its position, the City referred to a number of items in the Province's evidence. One is ALTA ('et') 92, which indicates that in 1984, basic toll revenues for the whole province were $539,124,000 and the contribution available for other services from these revenues amounted to $325,771,000 or 60%. Secondly, the City noted the testimony of AGT witnesses to the effect that major long distance and heavy traffic routes were 70% profitable. The City also pointed to ALTA ('et') 37R, in which AGT acknowledged that the Calgary-Edmonton toll route generates a contribution of nearly 80%. Finally, the City pointed out by way of comparison that Bell Canada and B.C. Tel had given evidence to the CRTC to the effect that their average toll profitability in the five years ending in 1984 was some 65%. ('et' main argument, pages 76 and 77, 'et' reply argument, pages 24 and 25)

The Province's Position

In its Argument, the province stated that, on average, toll service is priced above cost (AGT Argument, p.5.1-1). It also stated that basic toll service "generates a very large contribution and is therefore the major source of revenue which is required to finance services which are not self-supporting" (AGT main argument, p.6.2-26).

The Committee's Position

The Committee notes that the parties are in basic agreement on the point that toll service is profitable. The Committee considers, further, that the 60% average level of toll contribution for the province as a whole understates toll profitability of toll service in Edmonton, which the Committee considers to be more in the order of 70%, based on the record of these proceedings.

The Inclusion Of Non-Basic Or Competitive Network Toll In The Amount Available For Subsidy

The City's Position

It was the City's position, based on its definition of toll, that competitive network revenues, amounting in 1984 to $0.121 million, ought to be included in the amount available for subsidy, bringing the total pool of revenues available for contribution to some $325,892,000 in 1984. ('et' reply argument, page 94)

The Province's Position

It was the Province's position, based on ALTA ('et') 92 that while "basic toll" is the major source of revenue which is required to finance services that are not self-supporting, Competitive Network (and Competitive Terminal) also generate a net positive contribution. (AGT main argument, p. 6.2-26)

The Committee's Position

Although the amount is very small, the Committee considers that Competitive Network revenues ought to be included, given the definition of toll that it has accepted. The Committee notes, as pointed out by the City, that the $325,892,000 sum derived from ALTA ('et') 92, represents the net settled revenues of AGT from both intra and extra-provincial basic toll and competitive network services after having paid costs and contribution to other toll carriers and having paid its toll costs for the province.

Services Which Are Not Self-Supporting

The City's Position

It was the City's position that non-self-supporting services, within the meaning of the second Milvain principle, include basic local service throughout Alberta - both urban and rural - as well as low density and remote toll services.

In support of its position regarding local service, the City referred to ALTA ('et') 92, which indicates that "local" and "loop (access)" services were furnished at a deficit of $252,209,000 in 1984. ALTA ('et') 20 indicated that in Calgary the "local" and "loop (access)" deficit was $32,694,000 for 1984. As far as Edmonton is concerned, 'et's 1984 residential cost study (Exhibit 8, pg.V1-19) indicates that a deficit of $25,057,572 was incurred in residential service alone for that year. ('et' main argument, page 95 and 96)

The Province's Position

It was the Province's position that, in addition to remote and rural toll service, basic local service overall is not self-supporting. Its position was also, however, that local service in Calgary and Edmonton are not priced below cost and are hence self-supporting.

As regards Calgary, the Province's position is based on the AGT Calgary study in ALTA ('et') 20. As far as Edmonton is concerned, the Province's position was that

residential local service is not a separate service category, but is part of exchange service, which the Province considered to be profitable based on 'et's overall 1984 performance offering service which were virtually totally local by definition. (AGT main argument, page 6.2-27; AGT reply argument, page 6.2.5-1)

The Committee's Position

It is the Committee's position that remote and rural toll service is not self-supporting within the meaning of the second Milvain principle. It is also the Committee's position that at AGT rates, basic local service is not self-supporting in any community in Alberta, including Calgary and Edmonton.

The Committee's position on the Calgary deficit was stated earlier.

As far as Edmonton is concerned, the Committee notes that neither the results nor the methodology of the 'et' 1984 Residential Cost Study were questioned by the Province. The Committee believes that the study can be relied upon for 1985 as well. While 'et' did record a positive net income for 1985, the Committee also accepts the City's evidence in 'et' (ALTA) 117 that Edmontonians paid $27,5522,018 more in local telephone rates in 1985 than they would have paid if they had lived in Calgary ('et' (ALTA) 117).

The Quantification Of The Subsidies Required

The City's Position

It was the City's position that ideally the requirement for subsidy to any non-self-supporting service should be specifically identified and quantified. In the absence of evidence on the point from the Province, however, the City offered two sets of estimates as to the total amount of subsidy required for non-self-supporting services. One was based on ALTA ('et') 92, which indicated a total 1984 provincial subsidy required for "local" and "loop (access)" of $252.2 million, including Calgary, but excluding Edmonton. 'et's estimated figure of $30 million for Edmonton was added to that figure for 1985 for a total suggested subsidy requirement of $282.2 million.

The second method developed by the City is found in Exhibit 89, which contains a detailed enumeration of estimated urban subsidies (excluding those for Edmonton and Calgary) by size of exchange, based on studies conducted by AGT. It also contains an estimated rural subsidy requirement, based on a 1982 'et' study of $211.1 million. When estimated Calgary and Edmonton subsidies of $36.4 and $30 million respectively are added ('et' reply argument, p.101), the total subsidy requirement developed in this manner came to $277.5 million.

The above amounts did not include any deficit in providing unprofitable toll routes, since it was the City's position, based on the Province's evidence (ALTA ('et') 92; Transcript pp.3203-4) that this was already covered by the more profitable toll routes, as reflected in the figures regarding the overall profitability of toll in Alberta ('et' main argument, p.82).

The Province's Position

The Province's position was that ALTA 92 identified the required subsidy, which was in respect of basic local service, under the "local" and "loop (access)" categories. (AGT main argument, p. 6.2-27)

The Committee's Position

The Committee's position is that the ALTA ('et') 92 figure of $252.2 million can be accepted as the required Provincial subsidy (excluding Edmonton) both for 1984 and, since there is no better evidence on the record upon which to base 1985, as a surrogate for the required 1985 subsidy as well.

As far as Edmonton is concerned, the Committee does not accept the $30 million estimate offered by the City, but considers that a more appropriate measure of the required subsidy is the $27.55 million identified in 'et' (ALTA) 117, as representing the increased amount Edmontonians paid in 1985 over what they would have paid had they been residents of Calgary.

As regards unprofitable toll services, the Committee considers that no further subsidy is required since the deficit in providing these services is already covered in the province-wide toll revenue figures.

The Committee therefore concludes that the total amount required in 1985 for telephone services which are not self-supporting throughout Alberta was $279.8 million.

The Obligation to Finance

The City's Position

It is the City's position that while the obligation "to provide funds to finance" non-self-supporting services rests on both parties, the division of responsibilities in this regard must be judged in the context of what is fair and equitable for all Albertans, including Edmontonians. ('et' main argument, page 102)

The Province's Position

The Province's position is that "financing" in the second Milvain principle means that AGT and 'et' must each bear the burden of financing non-self-supporting services, equally to the limit of toll revenues generated in their respective operating territories (AGT main argument, p.1.7-8).

The Committee's Position

In the Committee's view, the second Milvain principle does not go so far as to require equal subsidy contributions by both parties to the limits of the toll revenues generated in their respective territories. Indeed, given the relative magnitudes of the toll revenues generated in Edmonton and the total subsidy required throughout the province, such a requirement would leave Edmontonians with no share of toll revenues whatsoever, contrary to the Memorandum of Understanding.

The Committee considers instead that the respective responsibilities of 'et' and AGT should be based on the requirements of fairness and proportionality, taking into account the relative situations of the two companies.

The Issue

(1.8) Does one of the two Milvain principles take precedence over the other or should the two be balanced by the Committee?

The City's Position

The City argued that the two principles should be bala..ced by the Committee and that neither has precedence over the other. ('et' main argument, page 103 and 104)

The Province's Position

The Province stated unequivocally that in its opinion the obligation to finance the non-viable segments of the systems must be satisfied before any toll profit is subject to a sharing formula. In particular, it said:

> "Yes, the second Milvain principle takes precedence as discussed in s. 6.2.7, i.e. after paying carriers outside Alberta and the causal toll costs of AGT and 'et'." (AGT main argument, p. 1.7-8).

The Committee's Position

The Committee sees no reason why either Milvain principle should take precedence over the other. It considers that in selecting its formula it must attempt to balance the two Milvain principles.

The Issue

(1.9) What other principles or criteria are dictated by the Committee's mandate?

The City's Position

The issue as to whether there were any other principles or criteria dictated by the Committee's mandate other than those discussed immediately above was replied to very succinctly by the City as follows:

> "In the City's view, no other principles or criteria are dictated by the Committee's mandate." ('et' main argument, p.88).

The Province's Position

The Province's position to this general question simply was that if reference is made to other sections of their argument, the criteria are discussed fully in those sections. A perusal of the references noted by AGT would indicate that there are no other criteria beyond those already referred to. (AGT main argument, page 1.7-8)

The Committee's Position

The Committee agrees with the parties.

The Issue

(2.0) The proposed formulae, description of the Alternate Appendix "B" (AAB)

Alternate Appendix "B" is the shorthand designation for the Commission and line-haul method of revenue settlement introduced by Bell Canada in 1958 in order to take account of the fact that many of the independent connecting companies with which it exchanged traffic owned few if any toll facilities. The AAB was meant to provide an alternative to the commission and prorate method, known as Appendix "B", which had been introduced in 1936.

Like Appendix "B", the AAB provides for originating or "A" commissions to the independents on revenues from calls originated by the independents (sent-paid and sent-collect) based on the average revenue per message (ARPM) on calls billed by the independents (sent-paid and received-collect). Like Appendix "B" the AAB also provides "B" or operating commissions to independents who perform operating functions such as switching. However, whereas under Appendix "B" remaining toll revenues (net of commissions) are prorated between the carriers on the basis of the number of message miles of traffic handled on their respective toll facilities, under the AAB there is no residual prorating of revenues.

Instead the "A" and "B" commissions are increased by 33% and 69% respectively, to recognize the full range of costs incurred by independents in the provision of jointly-offered toll services, and line-haul payments are made in recognition of the independent company's costs for toll trunk facilities. Payments are also made for specific services jointly provided with the independent companies such as WATS and TWX.

The AAB was patterned after the U.S. Nation-wide Average Schedules negotiated between the American Telephone and Telegraph Co. (AT&T) and the United States Independent Telephone Association (USITA) and is employed by Bell Canada for settlements with some 40 independent telephone companies in Ontario and Quebec.

In 1977 a Rate Adjustment Factor (RAF) was incorporated into the "A" Commission formula of the AAB to ensure that the toll retention rate of the connecting company would not vary simply with increases or decreases in the toll company's message toll rates.

In 1981 the RAF was made independent of the "A" Commission formula to recognize the different impacts that toll rate changes might have on different connecting companies, depending on their distances from the toll company and their calling patterns. Consistent with this approach, the City has calculated an RAF applicable to 'et', based on the actual changes to toll rates in Alberta since 1981.

The description and calculation of the RAF in the Bell Canada Traffic Agreement is set forth at 'et' (ALTA) 102R, Appendix 2, Section 2.1, pages 3 and 4. The City's calculation of an Alberta - specific RAF is set forth at Tab 2 of Exhibit 86.

Application Of The AAB By 'et'

A complete description of the compensation payable for services covered under the AAB is provided in Appendix I to Exhibit 8.

Table III below provides, in tabular form, a brief description of the compensation for each settlement component as well as the method for calculating each component.

Table IV contains a summary of the City's calculation of the AAB for 1985 as presented in Exhibit 86. The total AAB share calculated by 'et' for 1985 was $54,194,986.

TABLE III

ALTERNATE APPENDIX "B"

Settlement Component	Description of Compensation	Calculation of Settlement Amount
"A" Commision	Equitable share of 'et' generated message toll revenues covering costs of exchange circuit plant, sation equipment, local central office plant, toll billing, bad debt and toll advertising	Number of sent-paid and received-collect calls multiplied by the "A" Commission formula (0.8555 + 0.00224(ARPM) x RAF
TWX	Equitable share of the TWX revenues	Number of TWX messages multiplied by the "A" Commission formula for an ARPM less than $1.80 (0.4032 + 0.5019 (TWX ARPM) - 0.1394 (TWX ARPM^2) x RAF
OUTWATS Revenues	Equivalent share of OUTWATS revenues to that of MTS revenues	(MTS "A" Commission) / (MTS ARPM) x OUTWATS
800 SERVICE: 'et' Termination	Commission on 50% of the number of MTS messages required to generate the actual level of 800 terminating revenues	800 Billed Revenues / MTS Revenues x MTS "A" COMMISSION FORMULA (0.8555 + 0.00224(ARPM)) x RAF x 0.5
AGT Termination	MTS Commission on 90% of the originated 800 Service messages	Number of 800 originated messages multiplied by the "A" Commission formula (0.8555 + 0.00224(ARPM)) x RAF x 0.9)
ANI	Compensation for equipment provided by the independent to facilitate the automatic identification of the calling party	6.3¢ multiplied by the number of completed customer-dialed messages (DDD and 0+). Settlement adjusted to delete ANI calls originated on AGT-owned ANI equipment in 'et' step-by-step offices

Settlement Component	Description of Compensation	Calculation of Settlement Amount
900 Service		2.7¢ multiplied by the number of messages
Line Haul (MTS)	Compensation to the independent for the originating/terminating toll trunks connecting the independent's Class 5 offices to the carrier's toll switch	Monthly rate per Line Haul schedule multiplied by route miles plus schedule changes for in-place terminating and carrier equipment
CAMA	Compensation for additional equipment provided by the independent on circuits possessing central automatic message accounting (CAMA) capabilities	$5.00 multiplied by the number of in-service DDD toll trunks
EAS & EFRC: - Joint Provisioning	Equitable sharing of the trunking costs based on the route mileage contribution of both companies in interconnecting EFRC and EAS offices	'et' route mileage per location minus mean route mileage per location multiplied by the monthly rate per line haul schedule
- Surcharge	Retention by 'et' of the current surcharges collected by 'et' from its customers and forwarded to AGT	Surcharges currently levied: 15¢ per Residential Line 30¢ per Business Individual Line 45¢ per Business Switchboard Trunk 11¢ per Centrex Main Station
Interexchange - Cable Mileage	Cable mileage charges to AGT for private line toll circuits	'et' tariff rates applied on a per-circuit basis
- Terminal Commissions	Compensation based on a portion of the interexchange revenue derived from provisioning of these services in lieu of the message toll revenue foregone by the existence of these services	Per commission and line haul settlement, Group 1 and 2 terminal commission schedule

TABLE IV

ALTERNATE APPENDIX "B" SUMMARY AS SUBMITTED BY THE CITY OF EDMONTON*

	January 1985	February 1985	March 1985	First Quarter 1985	Annualized	Notes
A. ALTERNATE APPENDIX "B"						
"A" Commission	2,666,179	2,987,776	2,833,273	8,487,228	37,187,008	
TWX	19,554	18,733	17,661	55,948	243,533	
OUTWATS	49,516	46,125	53,092	148,733	580,510	
800 Service - 'et' Termination	61,535	61,535	61,535	184,605	738,420	
- AGT Termination	330,666	311,620	356,965	999,251	3,997,004	
ANI	102,471	128,532	120,905	351,908	1,461,386	
900 Service	8	9	28	45	180	
Linehaul	72,747	72,747	72,747	218,241	872,962	
CAMA	12,255	12,255	12,255	36,765	147,060	
EAS & EFRC						
- Joint Provisioning	(119,324)	(119,324)	(119,324)	(357,972)	(1,431,884)	
- Surcharge Collected (Net of Cost)	56,619	56,625	56,523	169,767	679,284	
Interexchange						
- Cable Mileage	479,453	479,453	479,453	1,438,359	5,580,581	
- Term. Commission	344,912	344,912	344,912	1,034,736	4,138,942	
Sub-Total	**4,076,591**	**4,400,998**	**4,290,025**	**12,767,614**	**54,194,986**	(1)
B. LESS EXPENSES ASSUMED BY 'et' (CREDITS TO AGT)						
Telecom Canada Advertising	(52,093)	(52,083)	(52,084)	(156,250)	(625,000)	(2)
Toll Billing Expenses	(550,431)	(550,431)	(550,430)	(1,651,292)	(6,605,169)	(3)
Toll Bad Debt	(166,667)	(166,667)	(166,666)	(500,000)	(2,000,000)	(3)
Deleted Intercompany Payments	(1,274,585)	(1,198,478)	(1,269,566)	3,742,625	(15,631,334)	(4)
C. PLUS INTEREST PAYABLE TO 'et'						
Intrest Payable	**259,419**	**263,674**	**238,314**	**761,407**	**1,710,334**	(5)
Net additional payment due 'et'	**2,292,244**	**2,697,013**	**2,489,593**	**7,478,850**	**31,043,817**	(6)

NOTES

(1) The figures for Alternate Appendix "B" are from Exhibit #86. These figures with the Telecom Canada advertising amount of $625,000 and interest payable of $1,710,334 provide the net AA"B" payment of 'et' of $55,280,320. This is provided in further detail in Part I of the Explanatory Notes.

(2) The Telecom Canada Advertising figure of $625,000 is an 'et' estimate based on the estimates provided by AGT in Milvain Exhibit #32:

Advertising:	1981 - $226,000
	1982 - $318,000
	1983 - $417,000

(3) The Toll Billing and Toll Bad Debt expenses are the budgeted 1986 figures for 'et' as contained on page VIII-11 of 'et' Evidence-in-Chief.

(4) The Intercompany Agreement sections that would be deleted are identified in 'et' (ALTA)-152. 'et'(ALTA)-227 identifies the amount that would be deducted for these sections for the first quarter of 1985. For the year 1985 the amounts would be:

Section	1985
1. EFRC	$ 1,472,280
6. Specials (portion covered by AAB)	5,995,146
9. EAS	174,996
10. Toll Connect	3,108,288
16. ANI (excluding ONI)	459,932
17. Coin Box Commission	152,400
19. Disconnect/Reconnect	323,370
28. RSP	3,944,922
	$15,631,334

(5) The interest payable is that interest due 'et' based on the net differential between the AA"B" payments over the existing settlement. This amount has been calculated on a month-by-month basis using the weighted monthly average short-term investment rate of the City of Edmonton.

(6) The "Impact on 'et'" figure was calculated by subtracting from AA"B" the amounts identified in Notes (2) (Telecom Canada Advertising), (3) (Toll Billing Expenses and Toll Bad Debt), and (4) (Deleted Intercompany Agreement Payments), and adding the amounts identified in Note (5) (Interest Payable).

Application of the AAB by AGT

AGT calculated the application of the AAB formula at the request of the Committee. In response to ALTA(Committee)3(iv), AGT stated:

> "The Alternate Appendix "B" results contained herein are calculated by applying the literal rules and commission levels set out in 'et' (ALTA)102R."

Part of attachment 1 to that interrogatory is reproduced in Table V to this Decision.

The total AAB share claculated by AGT for 1985 was $37,960,889.

The Issue

(2.0) The proposed formulae, description of the Comparative Requirements Test (CRT)

The City of Prince Rupert made an application to the CRTC on December 29, 1976 with regard to the City of Prince Rupert's traffic agreement with the British Columbia Telephone Company (B.C. Tel).

On August 22, 1977, the CRTC issued a preliminary decision appointing a Committee of Inquiry (C of I) and setting out interim directions pending a final disposition by the CRTC of the matter.

The "Report of the Committee of Inquiry ", dated December 27, 1978 and Telecom Decision CRTC 79-21 dated November 9, 1979 was filed in the subject proceedings as Appendix 5 to Exhibit 57.

After evaluating the "Alternate Appendix "B" Test", the "Toll Investment Test" and the "Value of Existence Test", the C of I stated at pages 65 and 66 of its Report,

> "Having examined and rejected the foregoing approaches, (those mentioned above in this sentence), the committee decided to formulate a fourth approach which we have called the "comparative requirements test". This approach is directly based on the application of the fundamental principles set out in Part Four. In essence, this test requires a review of the operating and financial data of the local company, based on the following concept:
>
> > Assume the local connecting company and its subscribers were transformed into a similarly situated community within the toll company's operating area. Then the local company should obtain a level of compensation from the toll company which will ensure that its subscribers are treated substantially the same as those in the similarly situated community in the toll company's territory...
>
> "In the Committee's view, the subscribers of a connecting company operating in the same province should be entitled to no less favourable treatment than is given to the subscribers of a local exchange operated by the major company. Since the only means of financial transfer is the settlement process, it follows that the means of achieving parity of treatment will be by adjusting the commission rate on revenue derived from the interchange of traffic between the two systems. The operative comparison is therefore between the financial and operating conditions of the connecting company and that of a hypothetical similarly situated community within the major company's service area.

"Obviously the result of the comparative requirements test may or may not be different from the results of a purely cost-based test. But any departure from cost will necessarily reflect subsidies or transfers that are taking place within the major company in any event. While the test does not assist in measuring the amount of such subsidies, it at least achieves a basic fairness in that subscribers of the connecting company and the major company will be treated alike."

The "fundamental principles" upon which the comparative requirements test is "directly based" are set out at pages 55-60 of the Report of the C of I and are as follows,

"1. All other matters being equal, traffic settlements between telephone companies should be based on a recovery of toll-related costs and a fair return on the investment of both companies in the facilities employed in making the toll calls exchanged between the systems...

2. In considering the terms of a particular traffic settlement, the regulatory bodies concerned should have regard to the interests of both bodies of subscribers, and not just the subscribers of the company under their jurisdiction...

3. While settlement arrangements have both local and national implications, it is particularly appropriate to take into account the province-wide effects of such arrangements...

4. It is appropriate in considering settlement arrangements to compare the position of small independent companies with similarly situated communities within the larger company's service area...

5. Subsidies flowing between telephone systems or between parts of such systems should be recognized and approved on the basis of sound public policy...

6. Non-investor owned telephone companies should be treated equivalently to shareholder-owned companies in settlement arrangements..."

<u>The Proposed Formulae. Application Of The CRT By The Committee Of Inquiry</u>

(b) Application of the CRT

With respect to the application of the CRT, the C of I stated at pages 67 and 68,

"In applying the comparative requirements test, it is important to stress the following principles:

(a) The local exchange rates of the connecting company may or may not be equal to those of a similarly situated community in the major company's area. This will be a matter for the local company and its regulatory agency to decide. For the purposes of comparing the local system with an exchange in the major company's operating area, however, the local rates should be conceptually equalized with those of the major company in order to ascertain what the aggregate local revenue of the system would have been had it been in the major company's territory.

(b) The quality of service of the connecting company and its proposed construction program should be evaluated so as to ascertain whether it is reasonably equivalent to the kind of service and construction program which would be found in a similarly situated community in the major company's territory. It is not the intention of the committee to reward through the settlement process imprudent or excessive investment by the connecting company. Therefore it is important that a comparable degree of review over the level of service and the construction program apply to the connecting company as would apply in the normal course to the major company. Where the rate base and construction program of the connecting company have been reviewed and approved by the provincial regulatory agency, this should in the Committee's view be given substantial weight. If no such review has been undertaken, it may be necessary to carry out an equivalent review in order to establish the reasonableness of the construction program of the connecting company, and whether in this regard it would not be unlike a program in a similarly situated community within the major company's service area.

(c) The next step in applying this test is to ascertain the rate of return of the connecting company, given the foregoing assumptions and assuming further a toll retention rate as prescribed in Alternate Appendix "B". If the rate of return is reasonable and is comparable, considering differences in financial and business risk, to the return on investment that the major company would expect to receive, then the toll retention rate will not require further adjustment. If on the other hand the rate of return is unreasonable, the retention rate should be adjusted so as to produce a reasonable result. In this connection, as noted in the sixth principle in Part Four above, the committee considers that non-investor owned telephone companies should be treated equivalently to shareholder-owned companies in settlement arrangements. Both systems encounter a degree of business and financial risk which is entitled to be taken into account in considering the question of a return on investment.

(d) The committee cautions that the application of this test may or may not result in a net gain for the connecting company, as compared with the retention rate prescribed in Alternate Appendix "B". Where the revenue requirement of the connecting company is increased by the need for expenditures to improve the quality of rural service, for example, and these expenditures are considered reasonable, then the company may benefit from transfer payments from the major company to this extent, just as a rural area within the major company's own operating area would receive such benefits.

(e) Finally, the use of the comparative requirements test is not intended to supplant the need for a uniform Canadian costing methodology and a uniform system of accounts. The eventual development of such a system is critical if one hopes to assess whether in fact subsidies are occurring and if so, in what direction. Interestingly enough, the existence of small independent telephone systems in a variety of circumstances in Canada provides an opportunity for regulators to examine closely the need for and the impact of such subsidies on particular groups of subscribers, since any such subsidies will flow through the settlement process.

The C of I then proceeded to apply the CRT to Prince Rupert as set out on pages 69-79 of its Report.

By Telecom Decision CRTC 79-21, dated November 9, 1979, the CRTC approved the use of the CRT with regard to the City of Prince Rupert's traffic agreement with B.C. Tel. On page 18 of that Decision the CRTC stated,

"In the absence of such a methodology (referring to an appropriate methodology to allocate telephone plant investment and expenses between local and long distance uses) at the present time, the Commission is prepared to accept the committee's recommended approach to the determination of an appropriate commission rate for the City in the present case, including the use of the comparative requirements test formulated by the committee. While the Commission recognizes that the costs and other difficulties associated with the test, many of which were noted by the intervenors, may raise certain questions about its general applicability, the Commission considers that in the present case the test was properly applied and that the committee exercised its judgment reasonably with respect to the City's construction program, quality of service and accounting procedures. Indeed, the Commission agrees with Bell that the committee studied the Prince Rupert operation in more extensive detail than that obtained in the annual studies performed jointly by Bell and the independent companies in Ontario and Quebec."

Application Of The CRT By AGT

AGT adopted and advocated the use of the CRT for the purpose of the subject proceedings and set out its proposed application of the CRT on pages 140-150(a)R of Exhibit 57. Specifically the steps followed by AGT in applying the CRT may be summarized as follows:

(i) Adjustment of Revenues by equalization of the local basic service rates by re-pricing 'et's rates to AGT's Rate Group 8;

(ii) Adjustment of 'et's Operating Expenses;

(iii) Determination of the Net Operating Income based upon adjusted Revenues and adjusted Operating Expenses;

(iv) Determination of 'et's Rate Base together with adjustments, if any;

(v) Determination of the appropriate Rate of Return to be applied;

(vi) Calculation of the Required Operating Income applying the appropriate rate of return to 'et's Rate Base;

(vii) Comparison of the Net Operating Income with the Required Operating Income to identify the Required Contribution; and

(viii) Conversion of the Required Contribution to a commission rate.

The "Revenue Share To Be Paid by AGT to 'et' under the Comparative Requirements Test For 1985", as proposed by AGT, is set out on page 149R of Exhibit 57 and is attached hereto as Appendix 6.

The "Commission Rate Calculation" and the "Total Commissions", as proposed by AGT are set out on page 150(a)R (revised on June 24, 1986) of Exhibit 57 and is attached hereto as Appendix 7.

The equalization or adjustments made by AGT for the application of the CRT to 'et's Revenues and Expenses and Return for 1985 (as shown on Appendix 8 attached hereto) are set out on pages 140-149R of Exhibit 57. AGT considers that if 'et' were a similarly situated community in AGT's service area, 'et' would be subject to AGT's Rate Group 8 (in accordance with AGT's formula based on the sum of the number of main stations which are accessible within the exchange itself, the number of main stations in the Extended Area Service area, and the number of distance weighted main stations accessible within the Extended Flat Rate Calling Area). AGT therefore equalized or adjusted 'et's revenues to AGT's Rate Group 8 which required a downward adjustment in 'et's revenues of $24,633,033 for 1985. AGT also removed $8,132,862 from 'et's revenues being the amount of AGT toll payments to 'et' in 1985 under the definition of "toll". With respect to expenses, AGT reduced 'et's Taxes by $9,444,401, Depreciation by $13,433,308 and Expenses by $9,011,670, all for the reasons given by AGT at pages 141-146R of Exhibit 57 and as shown on Appendix 6 attached hereto. AGT then determined a Rate Base for 'et' and what AGT considered to be an appropriate Rate of Return on that Rate Base as set out at pages 145(a)R-146R of Exhibit 57. The resulting Required Operating Income is shown on Appendix 6. Having calculated the Required Operating Income for 'et' by applying AGT's allowed rate of return to 'et's Rate Base, AGT subtracted the Net Operating Income from the Required Operating Income of 'et' to determine the Required Contribution to 'et' for the year 1985 of $9,874,093 as shown on Appendix 6 attached hereto.

AGT then converted the Required Contribution to a commission rate for 1985 and calculated Total Commissions to be paid to 'et' for the first three months of 1985 as shown on Appendix 7 attached hereto.

Application Of The CRT By 'et'

During the course of the hearing, 'et' submitted its version of the CRT based on the method it considered correct, and calculated the "Required Contribution" to 'et' for the year 1985 as $90,947,952. ('et'(Committee)3(viii)Attachment 1).

The Issue

(2.1) To what extent do the AAB and the CRT satisfy each of the requirements of the Arbitration Committee's mandate?

In the treatment of this issue below the two formulae are discussed under each heading in comparative terms.

The Issue

(2.1) To what extent do the AAB and the CRT satisfy each of the requirements of the Arbitration Committee's mandate as to toll revenue?

The City's Position

It was the City's position that the AAB deals expressly with toll revenues and can accommodate settlement of many different types of toll service, whereas the CRT is totally unaffected by how toll services are classified or by either the volume of toll messages or quantum of toll revenues. ('et' main argument, page 107 to 108)

The Province's Position

It was the Province's position that the issue of what constitutes "toll" is more crucial to the AAB formula or to a cost-based formula than to the CRT (AGT main argument, p.6.2-2). However, the Province considers that the AAB is a "traffic agreement" rather than a "toll settlement" (AGT main argument, p.7.3-15).

The Committee's Position

It is the Committee's position that the AAB is in fact a toll settlement arrangement, whereas the CRT is best used as a test to determine whether the level of toll compensation received by a connecting company under a toll settlement arrangement is reasonable, based on the required operating income of the connecting company in comparison with that of a national similarly-situated company in the operating territory of the toll carrier.

The Issue

(2.1) To what extent do the AAB and the CRT satisfy each of the requirements of the Arbitration Committee's mandate as to sharing?

The City's Position

It was the City's position that the AAB formula will always result in 'et' and AGT receiving some part of the toll revenues generated in the City of Edmonton (City's main argument, pp. 91 to 95). Application of the AAB formula cannot result in either party receiving a zero or negative share of these toll revenues since the formula will always pay 'et' a percentage of the toll revenues originated in the City of Edmonton.

It is the City's view that since the purpose of the CRT is to equalize the required operating income of 'et' and a similarly situated AGT system by conceptually merging the two, it does not focus on toll revenue generated in the City of Edmonton or the sharing of that revenue between the two telephone companies (Exhibit 57, pp. 146R and 148R; and Transcript, pp. 1896 and 3086).

The Province's Position

It was the Province's position that, while technically the CRT could provide a minus or zero share, 'et' is always entitled at a minimum to its causally-related costs. (AGT reply argument, p. 1-13). It is the Province's position that the AAB does not satisfy its definition of sharing discussed earlier.

The Committee's Position

On the basis of the interpretation of the term "sharing" adopted earlier, it is the Committee's position that while the AAB provides for a sharing of toll revenues generated in the City of Edmonton, the CRT does not, except in a most indirect fashion.

The Issue

(2.1) To what extent do the AAB and the CRT satisfy each of the requirements of the Arbitration Committee's mandate as to toll revenue generated in Edmonton?

The City's Position

It was the City's position that the AAB relates directly to toll revenues generated in the City of Edmonton. The "A" Commission in the formula is based on the actual toll messages billed in Edmonton, from which an "average revenue per message" or ARPM is derived and applied to the messages sent from Edmonton.

As regards the CRT, in the City's view it makes no difference how many toll calls are made from Edmonton or are billed to 'et' subscribers, or even what toll revenues are generated. ('et' reply argument, page 113 and 114)

The Province's Position

It was the Province's position that the CRT relates directly to the Edmonton situation. As Mr. Fyles stated,

> The results of the Comparative Requirements Test are determined based on an historical test period, and the revenues share (sic) thus determined is divided by the number of messages generated in Edmonton during that test period to determine the appropriate toll revenue share per message. For the following settlement period, the revenue share per message is applied to the messages generated monthly to determine the monthly payments based on usage. The revenue share will therefore vary with usage during the settlement period, and this is therefore an application no different than the application of the commission rate obtained under the AAB or any other formula. (Quoted in AGT main argument p.7.4.3-4; emphasis retained.)

The Committee's Position

In the Committee's view, the AAB, unlike the CRT, relates directly to toll revenues generated in Edmonton. The Committee considers that under the CRT it is only by virtue of an after-the-fact division of the 'et' revenue share - itself derived under the CRT independently of the toll revenues generated in Edmonton - by the number of 'et' messages, that a ratio between the two is established. Although that ratio may be applied to each toll message in the following settlement period, the actual application of the CRT comes at the end of the period and again bears no direct relationship to the toll messages — or indeed the toll revenues — generated in Edmonton during the period.

The Issue

(2.1) To what extent do the AAB and the CRT satisfy each of the requirements of the Arbitration Committee's mandate as a practical toll sharing formula?

The City's Position

It was the City's view that the AAB meets the test of practicality, whereas the CRT does not. In particular, it considers the CRT to be rife with controversies of interpretation due, in part, to the conceptual nature of the CRT and, in part, to the lack of industry experience in dealing with it. (Manitoulin Island, with 1800 stations, is the only company currently using the CRT. The few others who were using it, including Prince Rupert, are no longer doing so.) In the City's view, these two factors leave significant scope for subjective determinations on such matters as the prudency of investments, the correctness of depreciation methodology, the appropriateness of staff levels, and the proper level of operating expenses, all of which would, according to the City, guarantee continued conflict between the two telephone companies for as long as the test was employed. ('et' reply argument, page 115 et seq.)

The Province's Position

It was the Province's position that what is practical in the context of the present proceeding is something that will meet all the requirements of the Arbitration Committee's mandate under the Terms of Reference with relative ease. The Province considered the AAB to be merely a mechanical exercise which it would only be practical to apply once a cost based commission rate was selected or developed. (AGT reply argument, page 7.3-9)

With respect to the criterion of freedom from controversy of interpretation in particular, it is the Province's view that both methods require interpretation and that there should be few controversies over applying the CRT once the Arbitration Committee makes its initial ruling as to how certain key items ought to be decided. (AGT reply argument, page 7.3-7)

The Committee's Position

It is the Committee's position that the AAB is freer from controversy of interpretation than is the CRT, that the Bell ICR Manual sets forth detailed guidelines as to the application of the AAB, and that it is, in general, a more practical toll settlement formula.

The Issue

(2.1) To what extent do the AAB and the CRT satisfy each of the requirements of the Arbitration Committee's mandate as to the maximization of toll revenues coming into Alberta?

The City's Position

It was the City's position that Bell Canada and B.C. Tel are allowed to deduct their AAB or modified AAB settlements with independents in their territories prior to calculating their share of Telecom Canada revenues under the RSP and that, if these precedents are applied to Alberta, which the City considers they should be, it would result in significantly more toll revenues remaining in Alberta than is currently the case. In the City's view, the CRT would not improve Alberta's treatment under the RSP, but would indeed result in the province as a whole retaining an even smaller share of Telecom Canada toll revenues generated in the City of Edmonton than it now retains.('et' reply argument, page 109 et seq.)

The Province's Position

It was the Province's position that whatever formula is adopted for settling revenues with the City, the maximum amount of revenue that can be received from Telecom Canada is the amount that 'et' would be entitled to claim if it were a member of Telecom Canada, which is what AGT currently receives and remits to 'et'. (AGT main argument p.7.2-1 to 7.2-3).

The Committee's Position

The Committee does not consider that there is sufficient evidence on the record to make a conclusive determination on this point. However, the Committee would observe that, based on the record, it would represent a marked departure from previous practice for Telecom Canada to refuse to permit AGT to deduct its payments to 'et' under either an AAB settlement, or an AAB-related settlement such as that in force between B.C. Tel and the City of Prince Rupert, prior to determining the AGT share under RSP.

The Issue

(2.1) To what extent do the AAB and the CRT satisfy each of the requirements of the Arbitration Committee's mandate as to consistency with other independent company settlements in Canada and the U.S.?

The City's Position

It was the City's position that the AAB formula produces a result which is generally consistent with settlements received by other telephone companies, whereas the CRT, as applied by the Province, produces a settlement for 'et' which is considerably below industry norms. ('et' main argument, page115 et seq.)

The Province's Position

It was the Province's position that while the CRT, as it has applied the formula, may produce a settlement that is below industry norms, no other settlement formula in existence has, up to this point in time, had to comply with the Terms of Reference imposed upon the Committee, particularly the subsidy requirement. (AGT reply argument, pages 1-20 to 1-22)

The Committee's Position

It is the Committee's view that while the 'et' share of toll revenues under the AAB is generally more consistent with other North American settlements than is the CRT, there is some merit to the Province's point that the result is excessive given the Committee's Terms of Reference.

The Issue

(2.1) To what extent do the AAB and the CRT satisfy each of the requirements of the Arbitration Committee's mandate as to the adaptability to changes in the Alberta telecommunications environment?

The City's Position

It was the City's position that the AAB formula, through use of the RAF, is capable of adjusting to both increases and decreases in demand for toll service or changes in toll rates, whereas the CRT ignores changes in toll rates, the level of toll revenues generated, or the demand for toll services. ('et' main argument, pages 102 to 103)

The Province's Position

It was the Province's position that the CRT permits adaptation to changing circumstances by comparing the two companies on an ongoing basis, and that the AAB may well provide for compensation levels that are out of touch with changing realities. (AGT reply argument, pages 7.4.3-4 and 7.3-8)

The Committee's Position

The Committee considers that both formulae are adaptable, although to different types of changing circumstances. Thus, while the AAB is more adaptable to changes in toll revenues, the CRT is more adaptable to changes in the overall financial situations of the parties.

The Issue

(2.1) To what extent do the AAB and the CRT satisfy each of the requirements of the Arbitration Committee's mandate as to a comparison with the "Difference" in Calgary?

In light of the Committee's findings regarding the Calgary study discussed earlier, the positions of the parties on this point have been rendered somewhat moot. It is the Committee's position that, while the AAB would provide a settlement for Edmonton that would be closer to the Difference than would the CRT (either as applied by the Province or by the Committee under Issue 2.3 (b) below) to the amount that the Committee has determined Calgary derives from AGT toll revenues, it nevertheless considers the pure AAB result to be somewhat high in this regard.

The Issue

(2.1) To what extent do the AAB and the CRT satisfy each of the requirements of the Arbitration Committee's mandate in respect to the First Milvain Principle?

In light of its interpretation of the first Milvain principle discussed earlier, the Committee considers it unnecessary to summarize the positions of the parties under this heading, since they evaluated the two formulae on the basis of their own respective interpretations of that principle. It is the Committee's position that the AAB better meets the first Milvain principle than does the CRT in that it relates the settlement of the connecting company more directly to the volume of traffic generated within the City of Edmonton.

The Issue

(2.1) To what extent do the AAB and the CRT satisfy each of the requirements of the Arbitration Committee's mandate in respect to the Second Milvain Principle?

In light of the Committee's findings on the second Milvain principle discussed earlier, it is again unnecessary to summarize the positions of the parties under this heading. It is the Committee's position that the AAB, as it has been applied by the Committee, satisfies the second Milvain principle better than the CRT. Based upon the Committee's calculations of both formulae, the AAB leaves a significantly greater portion of toll revenues generated in Edmonton available to finance non-self-supporting services in the rest of the province. This is discussed further under issue 2.3 below.

The Issue

(2.1) To what extent do the AAB and the CRT satisfy each of the requirements of the Arbitration Committee's mandate in respect to the balancing of the two Milvain principles?

In the Committee's view, the AAB does a better job of balancing the two Milvain principles than does the CRT.

The Issue

(2.2) In applying the AAB and the CRT, to what extent should the Committee consider the relative efficiency, accounting policies and practices, tax liabilities and the method of regulation of the two parties?

The City's Position

It was the City's position that the Committee should not consider the above matters in applying a toll revenue sharing formula. In the City's view the Committee should take the two telephone companies as it finds them and accept that each is being operated in accordance with the legal and regulatory regime that governs it. The City considers that it is not part of the Committee's mandate to seek to rationalize the operations of the two companies, that this would open a Pandora's box of legal, regulatory and accounting issues; and that it would run counter to the legislation which preserves the two companies' independent regulation, mandate and management prerogative. ('et' main argument, page 152 et seq.)

The Province's Position

It was the Province's position, that the above factors should be taken into account in order to be fair to all Albertans.

The Province considered this to be of particular importance in light of the fact that AGT is regulated by the Public Utilities Board, an arm's length regulator, while 'et' is regulated by the City Council, which is also effectively its Board of Directors, on behalf of the City, which owns 'et's' system. (AGT main argument, pages 1.7-10 and 11; page 4-2)

The Committee's Position

The Committee considers this to be an extremely important issue, and its general position is set forth in the next section of this report by way of preliminary comment to its decision as to a formula. Specific elements are also addressed further under issue 2.3(b) below.

The Issue

(2.3)(a) Based on item-by-item analyses of the Province's and the City's calculations, what would the toll revenue share of the City and the Province be for the first quarter of 1985 under the AAB?

In Attachment I to ALTA (Committee) 3(iv)R, the Province presented an item-by-item comparison of the AAB calculations, as performed by the City and the Province, for each of the first three months of 1985, the first quarter, and the the entire year. The first quarter comparisons are reproduced below as Table V, together with the differentials between them. As will be noted from Table V, the differentials in the compensation under the actual AAB headings can be traced to differences between the parties on the definition of toll, the applicability of the rate adjustment formula (RAF), and the calls that should be subject to ANI compensation. These will be discussed in turn, as will certain points of difference related to specific AAB heads. Finally, the differences in the various suggested credits between the parties and the matter of interest will be discussed.

TABLE V

ALTERNATE APPENDIX 'B' SUMMARY

FOR FIRST QUARTER 1985

	'et'*	AGT**	DIFFERENTIAL
"A" COMMISSION	8,487,228	7,119,357	1,367,871
TWX	55,948	N/A	55,948
OUTWATTS	148,733	124,770	23,963
800 Service -			
'et' Termination	184,605	154,866	29,739
AGT Termination	999,251	838,297	160,954
ANI	351,908	321,852	30,056
900 Service	45	45	--
Linehaul	218,241	218,241	--
CAMA	36,765	36,765	--
EAS & EFRC			
Joint Provisioning	(357,972)	N/A	(397,972)
Surcharge Collected			
(Net of Cost)	169,767	N/A	169,767
INTEREXCHANGE			
Cable Mileage	1,438,359	N/A	1,438,359
Term. Commission	1,034,736	N/A	1,034,734
SUB-TOTAL	**12,767,614**	**8,814,193**	**3,953,421**
LESS EXPENSES ASSUMED BY 'et' (CREDITS TO AGT)			
Telecom Advertising	(156,250)	N/A	(156,250)
Toll Billing Expense	(1,651,292)	(1,430,000)	(221,292)
Toll Bad Debt	(500,000)	(713,514)	213,514
Deleted ICA Payments	(3,742,629)	(2,033,922)	(1,708,707)
PLUS INTEREST PAYABLE TO 'et'			
Interest Payable	761,407	N/A	761,407
Impact on 'et'	7,478,850	4,636,757	2,842,093
LESS OTHER ADJUSTMENTS (CREDITS TO AGT)			
Additional Revenue into Alta	(3,452,702)	N/A	(3,452,702)
Billing Expense Adjustment	N/A	447,057	(447,057)
Toll Bad Debt Adjustment	N/A	223,064	(223,064)
Impact on AGT	**4,026,148**	**5,306,877**	**(1,280,729)**

*Exhibit 86
**ALTA (Committee)3(i)R, Attachment I
***Reference to note numbers in the Province's Attachment have been deleted.

The Issue

(2.3)(a) Based on item-by-item analyses of the Province's and the City's calculations, what would the toll revenue shares of the City and the Province be for the first quarter of 1985 under the AAB?

Toll Definition

The City's Position

It was the City's position, based on its understanding of the AAB and its definition of toll, that compensation is due for EAS & EFRC, Interexchange, and TWX. The total compensation under the five heads concerned is $2,340,838 for the first quarter of 1985.

The Province's Position

The Province did not indicate any difference of view with the City as to the calculation of the amounts under the heads in question or as to the total. Rather, it was the Province's position, based on its definition of toll, that compensation was not due under these headings. (AGT main argument, page 6.2-1 et seq.)

The Committee's Position

Based on the definition of toll accepted by the Committee, as well as its understanding of the pure AAB settlement, it considers that compensation is due under the five heads in question and has been properly calculated by the City.

The Applicability Of The Rate Adjustment Factor (RAF).

The City's Position

It was the City's position that the proper way to calculate the "A" Commission, as well as those for OUTWATS and 800 service, is to apply the formula in the Bell Canada Traffic Agreement, including an RAF developed specifically for Alberta, calculated from June, 1981. In the City's submission, to exclude the RAF would be unfair, in that it would not provide a connecting company with any share of the increases in toll revenues due solely to toll carrier rate increases. The City has pointed out that prior to 1981 the RAF formed part of the basic "A" Commission formula, and was only separated out at that time in order to take account of the different situations of different connecting companies. ('et' main argument, page 168 et seq.)

The Province's Position

It was the Province's position that the inclusion of the RAF merely serves to inflate the formula. The Province has argued that the RAF should only be used on a prospective basis from January 1, 1985, and should be reset to 1.0 each time the "A" Commission formula is renegotiated. The Province also considers that 'et's calculation is incorrect. (AGT main argument, page 7.3.2-2 et seq.)

The Committee's Position

It is the Committee's position that an Alberta-specific RAF has been correctly developed and applied by the City under the AAB. Indeed since the RAF formed part of the "A" Commission formula from 1978 to 1981, for it to be excluded only for the period since it became an independent part of the formula would, in the Committee's view, be illogical.

Automatic Number Identification (ANI)

The City's Position

It was the City's position that the 6.3 cents per call commission for Automatic Number Identification (ANI) equipment should apply to all calls. In the case of operator-assisted calls, while information as to a call's destination is obtained directly from the caller by the operator, the originating number is still part of the ANI data, appears on the bill and is used to follow up on collections. ('et' main argument, pages 175 and 176)

The Province's Position

It was the Province's position that ANI should not apply to operator-assisted calls, which do not use ANI data for billing purposes (AGT argument p.7.3.2-23).

The Committee's Position

The Committee considers that ANI-derived information is used for billing purposes and accepts the City's position.

Extra-Provincial 800 Service Terminations

The City's Position

It was the City's position that compensation is due for extra-provincial 800 service terminations based on its interpretation of paragraph 2 of the Bell Canada Traffic Agreement, which defines the system of Bell Canada as including systems with which Bell interchanges traffic ('et' reply argument p.187).

The Province's Position

It was the province's position that the commission should only be applied to calls terminating in Alberta, based on its reading of Appendix 2, section 2.4, page 3 of 4 of the Bell Canada Traffic Agreement (AGT main argument p.7.3.2-21).

The Committee's Position

The Committee agrees with the City. The heading "Traffic Terminating at the System of Bell Canada" in Appendix 2, Section 2.4, page 3 of 4 of the Traffic Agreement must be understood in the light of the definition of "the system of Bell Canada" in paragraph 2 of the Agreement, which makes it clear that the term includes systems with which Bell interchanges traffic.

Extended Flat Rate Calling (EFRC)

The City's Position

It was the City's position that its calculations associated with this service inherently recognize AGT's placement of the EFRC switch. Without this switch the City stated that AGT's portion of the mean mileage upon which the calculations are based - and the payments it receives from 'et' - would be substantially reduced. ('et' reply argument, p.189)

The Province's Position

It was the Province's position (apart from its view that EFRC is not a toll service,) that the EFRC calculation cannot be done in accordance with the Bell Canada Traffic Agreement because that formula does not contemplate an EFRC switch. (AGT main argument, page 7.3.3-33 and 23)

The Committee's Position

While the Committee agrees with the Province that the Bell Canada Traffic Agreement does not contemplate any EFRC switch, it nonetheless considers that EFRC compensation is appropriate in the context of this arbitration, that it can be calculated using the AAB formula, and that the City's method of calculation is acceptable.

Interexchange Services Terminal Commissions And Possible Double Billing

The City's Position

It was the City's position that under the Bell Canada ICR Manual, the independent receives a terminal commission under the AAB which is not provided for under the ICA. (The 1985 total applied to 'et' would be $4,138,942) However the compensation for cable mileage under the AAB ($5,580,581 for 1985) would replace the identical amount of compensation for toll circuits currently received under Section 6 of the ICA. ('et' Reply p.190, letter to S.M. Barnett, January 13, 1987, p.2)

The Province's Position

It was the Province's position that there is double billing when the $4,138,942 of compensation for interexchange terminal commission under the AAB, the $5,580,581 for toll circuits under Section 8 of the ICR Manual, and the same amount under cable mileage under the AAB are added together. (AGT main argument p.7.3.2-25)

The Committee's Position

The Committee agrees with the City's calculations. There will be no double billing under the AAB if payment for toll circuits under Section 6 of the ICA is replaced by the payment for cable mileage under the AAB formula. The $4,138,942 for interexchange terminal commission is the only new settlement component in respect of this type of service under the AAB formula.

Expenses Assumed By 'et': Telecom Advertising

The City's Position

It was the City's position that the AAB is intended to compensate the independent company for advertising toll services and that this has been recognized in the report of the Prince Rupert Committee of Inquiry, in the Bell Canada ICR Manual, and in a joint exhibit of the parties before the Milvain Committee. The amount in question has been estimated based on figures supplied by AGT during the Milvain Committee proceedings. ('et' main argument, page 180)

The Province's Position

It was the Province's position that it does not seek any credit for Telecom Canada advertising, and that there is nothing in 'et' (ALTA)102 which suggests that the independent company should bear the cost of this advertising. (AGT argument p.7.3.2-26)

The Committee's Position

The Committee agrees with the City that the pure AAB contemplates compensating the connecting company for Telecom Canada advertising. It is prepared to accept the City's estimate of the amount involved, since this is the best evidence available on the record.

Toll Billing

The City's Position

The City's position was that the costs to the connecting company for toll billing are compensated for under the AAB. Edmonton has estimated its costs, based on its 1986 budget, to be $1,651,292 for the first quarter of 1985. Since AGT was performing the toll billing function in 1985, the City has suggested that this is the amount of credit due AGT for the period. (City main argument p.180-1)

The Province's Position

The Province's position is that the amount of compensation should be related to the cost savings to AGT as a result of 'et' performing toll billing. On this basis it estimates the credit due it for the first quarter of 1985 to be $1,430,000. (AGT (Committee)3(iv)R, Note 3)

The Committee's Position

Based on the Bell Canada ICR Manual and its understanding of the pure AAB, the Committee agrees with the City that the compensation for toll billing should relate to the costs incurred by the connecting company, and accepts the City's estimate of the credit due AGT for the first quarter of 1985.

Bad Debt

The City's Position

The City based its bad debt estimate for the first quarter of 1985 on its 1986 budget. (City main argument p.181)

The Province's Position

The Province based its estimate on AGT's actual uncollectible revenue for 1985. (AGT (Committee)3(iv)R, Note 4)

The Committee's Position

It is the Committee's position that like toll billing, the relevant bad debt cost figure should be 'et's, not AGT's. The Committee notes in passing that the total difference between the parties for toll billing and bad debt for the first quarter of 1985 is less than $8000.

Deleted ICA Payments

There are three differences between the parties on this item relating, respectively, to their disagreement on the definition of toll; their methods of calculating quarterly amounts, and AGT's inclusion of part of Section 8 of the ICA relating to duct line rentals.

The definition of toll has been discussed earlier.

In regard to the methods of calculation, while the Province has simply divided the annual figure by four, the City has attempted to derive quarterly actuals as far as possible. (See p.182 of the City's main argument for a detailed comparison. The Committee notes in particular the differences in the ANI and Disconnect/Reconnect figures, which reflect the highly particular circumstances of the first quarter of 1985.) Consistent with its belief

expressed in other parts of this decision that actual figures should be used for settlement purposes wherever possible, the Committee prefers the method employed by the City.

As far as the inclusion or exclusion of Section 8 duct line rental payments are concerned, neither party presented evidence on the point. Nor did the Province address it in argument. The City did address it in argument, claiming that the payments in question are in respect of a facility rental unrelated to the interconnection of 'et' customers to the AGT system (City argument p.183). Since this is the best evidence on the record before it, the Committee considers that the payments in question would not be covered under an AAB settlement.

The Committee accordingly accepts the City's figure of $3,742,629 as the correct credit to AGT in respect of deleted ICA payments for the first quarter of 1985.

Further Credits To AGT

The items included under this category include additional revenue into Alberta, as well as billing and toll bad debt adjustments representing Telecom Canada RSP income foregone as a result of 'et' performing the toll billing function. In regard to all of the items in this category, the Committee does not consider that there is sufficient evidence on the record to support any firm figures under this general heading. The Committee notes in any case that the credits involved do not directly affect the payments between the parties, but rather those between AGT and the other members of Telecom Canada.

The Question Of Interest

The City's Position

It was the City's position that interest on the payment due 'et' is applicable, based on a letter to the City from the Hon. Robert Bogle, Minister of Utilities & Telecommunications dated February 11, 1985, indicating that $13,000,000 had been placed in trust with a mediator on January 30, 1985 in respect of a toll settlement, and that interest had accrued to approximately $44,200. ('et' main argument p.184)

The Province's Position

The Province's position was that there is no historic precedent for charging interest on retroactive settlements between AGT and 'et', and that the application of interest was not contemplated in the Memorandum of Understanding. (ALTA (Committee)3(iv)R Note 6)

The Committee's Position

The Committee notes that section 10 of the Bell Canada Traffic Agreement provides that late payment charges may be made on overdue accounts. However, it considers that this would only apply once an AAB settlement was in effect. It does not consider that an interest payment should be included in a calculation of the AAB as applied to the 1985 year. The subject of interest in regard to the final settlement between the parties is discussed further below.

The Committee's Conclusion

On the basis of its analysis of the calculations of the AAB by the parties, the Committee considers that the net payment to 'et' for the first quarter of 1985 under the AAB would be $6,717,443, representing "Impact on 'et'" less "interest payable" under the 'et' column on Table V.

The Issue

(2.3)(b) Based on item-by-item analyses of the Province's and the City's calculations, what would the toll revenue shares of the City and the Province be for the first quarter of 1985 under the CRT? Discussing firstly the comparative table of the CRT calculations by the parties.

At page 189 of its argument the City prepared a line comparison of the CRT calculations for the first quarter of 1985, as performed by the Province and the City. That comparison is reproduced below as Table VI for purposes of the ensuing discussion, which focuses on the differentials between the two sets of calculations and attempts to resolve the underlying differences. The Committee would note that this effort has required a great deal of subjectivity on its part, not all of which it is entirely comfortable with. Indeed, in the Committee's view this exercise serves to highlight one of the principal reasons why the CRT is an inappropriate toll revenue settlement formula for Alberta.

The Committee notes that the Province did not subject its calculations of the CRT to any of the companies which had utilized that formula. The Committee also notes Mr. Fyles testimony (transcript, p.2880) that he knows of no other telephone company which has calculated the CRT the same way AGT has.

TABLE VI***

COMPARATIVE REQUIREMENTS TEST SUMMARY FOR FIRST QUARTER 1985

	'et'*	AGT**	DIFFERENTIAL
Revenues			
Local	$42,899,354	$42,899,354	$ --
Toll Interprovincial	921,410	986,446	(65,036)
Net Alternate Appendix "B"	10,460,072	--	10,460,072
Directory & Sales	4,708,749	4,708,749	--
Other	2,968,075	2,967,860	215
'et' Rate Adjustment	(6,557,085)	(6,158,258)	(398,827)
AGT Toll Payments	(3,742,629)	(2,033,216)	(1,709,413)
Total Revenues	**$51,657,946**	**$43,370,935**	**$ 8,287,011**
Expenses:			
Maintenance	$ 8,207,783	$ 8,207,783	$ --
Depreciation	14,274,616	14,274,616	--
Business Development & Sales	5,948,566	5,948,566	--
Taxes	3,148,134	787,034	2,361,100
Operations	9,097,030	9,097,030	--
Depreciation Adjustment	(27,722)	(3,358,327)	3,330,605
Expense Adjustment	(132,197)	(2,252,918)	2,120,721
Calgary Expense Equalization	11,054,530	--	11,054,530
Total Expenses	**$51,570,740**	**$32,703,784**	**$18,866,956**
Net Operating Income	**$ 87,206**	**$10,667,151**	**$(10,579,945)**
Required Operating Income	$16,715,082	$13,135,674	$ 3,579,408
Additional Payment to 'et' Above Alternate Appendix "B"	$16,627,876	$ --	$16,627,876
Payment to 'et' (Excluding Interest)	$23,345,319	$ 2,468,523	$20,876,796

* 'et' (Committee)3(viii)

** Exhibit 57, p.149R (Version4), one-fourth of annualized total. It should be noted that in ALTA (Committee)3(v) the Province calculated a three month total payment to 'et' of $2,227,273. Also in its Argument (p.1.7-11) the Province stated that the AGT toll payments for the first quarter were $1,822,608. This figure contrasts, however, with the figure of $2,033,922 provided by the Province in ALTA (Committee)3(iv). None of the above changes are substantial enough to materially affect either the Province's methodology or the the discussion below.

*** References to note numbers in the City's argument have been deleted

Toll Interprovincial And Other Revenue

The City's Position

The "toll interprovincial" figure is made up of RSP payments and CNCP revenues. As regards the former, it was the City's position that since RSP payments vary on a monthly basis, first quarter actual figures should be used. With regard to CNCP revenues, the City's position was that these should be included in the "other revenue" category ('et' main argument p.190)

The Province's Position

The Province did not take issue with the use of actual first quarter RSP payments, although it considers that CNCP revenues should be included in "toll interprovincial" on the basis that these revenues are part of the revenues to be shared under the Terms of Reference of this arbitration. (AGT main argument, page 2.2-9)

The Committee's Position

The Committee considers that RSP actuals should be used. It does not consider CNCP revenues to be part of the toll revenues to be shared as a result of this proceeding, and believes that they should be included in the "other revenue" rather than the "toll interprovincial" category.

Net Alternate Appendix "B" Payment

The City's Position

It was the City's position that this item ought to be included because it regards the CRT as a test for evaluating whether a specific revenue settlement, calculated by means of another toll sharing formula, is reasonable. In support of this position, the City has adduced evidence indicating that this is how it has been used in other cases, and that that is how it is viewed by Bell Canada and by the Canadian Independent Telephone Association ('et' main argument p.191-2).

The Province's Position

In the Province's view the CRT should stand on its own and this item is therefore not required. The Province also points out that the results, in terms of payment to the connecting company, are the same whether or not the CRT is used to test the AAB or as a stand-alone settlement. (AGT main argument, page 7.4.3-5)

The Committee's Position

The Committee considers that the CRT was originally designed and is best used as a test of the reasonableness of other types of toll settlement, particularly the AAB. Where the CRT is used as a test, the net AAB payment is included. However since it has been used by the Province as a stand-alone settlement in this proceeding rather than as a test, the item is not included for purposes of the present discussion.

'et' Rate Adjustment

The City's Position

It was the City's position that for rate adjustment purposes under the CRT, the revenues from basic local services in Edmonton must be compared with the rates in effect in Calgary for similar services during the period in question. The City has therefore attempted to derive these revenues from each of three basic service categories, viz. local exchange, terminal and special circuit services.

In regard to the local exchange revenues, which account for over 90% of the total figure, the City has adjusted the differential for the last two thirds of the year to account for a 4.85% reduction in AGT rates effective August 28, 1985. ('et' main argument, pages 194 to 197)

The Province's Position

It was in the Province's position that the rate adjustment should be based on a revenue comparison using the Calgary rates in effect after August 28, 1985. In the Province's argument it is explained that the lower rates were used for the entire year's calculation because the higher rates in effect in the first part of 1985 were not related to 1985 revenue requirement but were rather related to collection of a revenue deficiency for 1983 and 1984. (AGT main argument p.7.4.2-10)

The Committee's Position

The Committee notes that in regard to this matter, the Prince Rupert Committee of Inquiry considered it important to stress the following principle:

> For the purposes of comparing the local system with an exchange in the major company's operating area... the local rates should be conceptually equalized with those of the major company in order to ascertain what the aggregate local revenue of the system would have been in the major company's territory. (emphasis added)

The Committee also believes, as a general principle, that in the application of the CRT in any given period, any adjustments to the connecting company's figures deemed appropriate should reflect the toll carrier's actual figures as accurately as possible.

The Committee considers that the method of calculation utilized by the City to determine the appropriate rate adjustment more effectively satisfies the above principles than does the Province's, and it therefore accepts the City's figure as the best available.

AGT Toll Payments

The City's Position

It was the City's position that the figure in question should reflect the ICA payments deleted pursuant to its definition of toll. ('et' main argument, page 198)

The Province's Position

The Province's took the same position with regard to its definition of toll. (AGT main argument, page 7.4.2-1)

The Committee's Position

In light of the Committee's decision on the definition of toll discussed earlier in this Decision it considers the City's figure to be appropriate.

Revenue Tax

The City's Position

It was the City's position that the 8% revenue tax is a legitimate operating expense of 'et', in that it is a duly levied tax of general application that is accounted for as a legitimate expense not only by the City's auditors but also by Telecom Canada under the RSP.

In regard specifically to the CRT, it was the City's position that it would be inappropriate to reduce the tax figure, noting that equivalent municipal taxes paid by other municipally-owned telephone companies have not been reduced in other cases where the CRT has been applied ('et' argument p.199-200).

The Province's Position

It was the Province's position that only one-quarter of the revenue tax should be included in the CRT calculation, inter alia, for two reasons. One is that that is the amount equivalent to the business and property tax paid by AGT through a grant in lieu of taxes, and that the balance would not be paid in AGT's operating territory. The other is that the tax is a non-arm's length taxation imposed by the City on itself, without any independent regulation. (Exhibit 57, page 141; AGT main argument, page 7.4.2-6 and 13; AGT reply argument, page 7.4)

The Committee's Position

The Committee agrees with the City's position that the full 8% revenue tax figure should be included as an expense in the CRT calculation. In addition to the reasons given by the City, the Committee notes that the sixth fundamental principle of the CRT as set forth by the Prince Rupert Committee of Inquiry is that non-investor-owned telephone companies should be treated equivalently to shareholder-owned companies in settlement arrangements, and that the City's revenue tax is also paid by shareholder-owned Northwestern Utilities, the municipally franchised gas utility.

Depreciation Adjustment

The City's Position

It was the City's position that its depreciation expense figure reflects actual depreciation (less an adjustment of $27,722,000 to reflect savings due to the replacement of step-by-step equipment) as approved by an external auditor. It considered the depreciation adjustment made by the Province to be inappropriate, because the one time write-off and the reduction in service lives of equipment that the adjusted figure reflects were made in response to 'et's terminal service being opened to competition, and because they were similar to a write-off and reduction in service life made earlier by AGT in similar circumstances ('et' main argument p.20l-3).

It was the Province's position, based "on a standard of regulatory reasonableness" that the one time write-off and service life reduction in question are unreasonable, and were an "overreaction" to competition. (Exhibit 57, page 145R; AGT main argument, page 7.4.2-7 and 8)

The Committee's Position

Based on the evidence before it, it is the Committee's position that the depreciation adjustment made by AGT to the 'et' depreciation figure is not appropriate. For reasons discussed further below, it is also the Committee's view that the step-by-step equipment adjustment factor included by 'et' is not appropriate.

Expense Adjustment

The City's Position

It was the City's position that its operating expenses are legitimate and should be included in the CRT calculation (except for $132,197 in regard to the step-by-step equipment adjustment). The City considered that the expense adjustment made by AGT reflects a misinterpretation of the requirements of the CRT, flowing from the erroneous assumption that the CRT calculation requires that 'et' be treated as though it has in effect been merged with the operations of AGT. It was, moreover, the City's position that the Province has not applied the merger hypothesis correctly, in that it has failed to take account of the fact -

acknowledged by Mr. Fyles in response to a question from the Chairman - that under a merged arrangement 'et's expenses could actually increase, resulting in an increased settlement to the City ('et' reply argument p.202-4).

The Province's Position

It was the Province's position that the expenses in question are overhead expenses and intercorporate allocations that would not be incurred if Edmonton were a separate similarly situated city within the Alberta system. (AGT argument p.7.4.2-7). They were excluded on the basis that "if Edmontonians want to own and operate a separate telephone company, they must bear the additional costs that such proprietorship entails." (Exhibit 57, p.142) In the Province's view, overall costs of telecommunications in the province are higher because of the existence of two companies, a situation which should not be reflected in the settlement between the parties (AGT main argument p.7.4.2.-11).

The Committee's Position

It is the Committee's position that the CRT is not based on the hypothesis that the two systems in question should be treated as merged. In the Committee's view the operating expenses in question were legitimately incurred, and the adjustment made by the Province to the City's operating expenses is inappropriate. For reasons discussed below, it also considers the City's expense adjustment in respect of step-by-step replacement to be inappropriate.

Calgary Expense Equalization

The City's Position

It was the City's position that the notion of a "similarly situated" system at the core of the CRT method is not a straightforward one, and that in order to ensure a proper comparison, separate cost studies must be conducted, and all possible adjustments considered. On the basis of its own assessment, it was the City's position that an upward adjustment of its operating expenses of some $11 million is required in order to equalize its situation to that of Calgary. ('et' main argument, pages 205 to 207)

The Province's Position

It was the Province's position that 'et's' expenses are generally reasonable and, except for the ones related to the conceptional merger discussed earlier, can be allowed for the CRT. No further studies are, in its view, required, and the Calgary expense equalization is not justified. (AGT main argument, pages 7.4.2-12)

The Committee's Position

The Committee agrees with the City that the exercise of attempting to compare a connecting company to a "similarly situated" system in the toll company's territory, as required by the CRT, is far from a simple matter. Indeed that in its view is one of the drawbacks of the method. At the same time, the Committee does not consider that the record before it justifies either the kind or magnitude of equalization figure proposed by the City. For this reason, and in keeping with the Committee's belief expressed at a number of points in this report, that the two companies must, as a rule, be taken as they are for purposes of toll revenue sharing, the Committee does not accept the City's Calgary expense equalization.

Rate Base

Since the differential in this item is due to the combined effects of using different rate bases and different rates of return, these items are discussed in turn.

The City's Position

It was the City's position that the rate base should be calculated on a mid-year basis in the manner prescribed by the PUB, and that this calculation should be adjusted to take proper account of the step-by-step equipment replacement, which is in its view required in order to properly compare Edmonton to Calgary. The resulting rate base figure, according to the City, should be $428,591,850. ('et' main argument, pages 209 and 210)

The Province's Position

It was the Province's position that no adjustment for step-by-step equipment is required, since this investment was not made in an imprudent manner and was presumably based on sound principles of engineering economics (AGT main argument p.7.4.2-14).

The Committee's Position

It is the Committee's position that the City has used the correct method in calculating its mid-year rate base.

As regards the City's proposed adjustment to reflect step-by-step equipment replacement, the Committee recognizes that adjustments of the kind suggested by the City are appropriate under the CRT in certain circumstances. As indicated in the Report of the Prince Rupert Committee of Inquiry such circumstances could exist where the quality of service of the connecting company and its construction program were not considered to be "reasonably equivalent to the kind of service and construction program which would be found in a similarly situated community in the major company's territory." (C of I, p.67). In the Committee's view, however, such circumstances do not obtain in the present case.

The Committee accordingly considers that the appropriate rate base figure should be reduced by $26,883,794 for a total of $401,708,056. It also considers, as indicated above, that the related depreciation and expense reductions of $27,722 and $132,197, respectively, should be removed from the CRT calculation.

Rate of Return

The City's Position

It is the position of the City that to properly calculate the CRT, either the allowed rate of return must be used in conjunction with rates which generate that return or the rate of return must be adjusted upwards to reflect the rate of return which is actually generated by existing rates. To do otherwise would in its view be to penalize the connecting company under the CRT twice - once with regard to the rate adjustment figure, and once in regard to the required operating income. In its calculations the City has used the rate of return that is actually generated by existing rates. ('et' main argument, page 210 to 212)

The Province's Position

It was the Province's position that since there is no difference in the business risks of the two companies, the allowed rate of return must be employed. The Province also noted that this had been the City's own position before the Milvain Committee and is what appeared to be suggested from the Prince Rupert Committee of Inquiry Report (AGT argument p.7.4.2-15). While the Province acknowledged that AGT overearned its rate of return for 1985, it states that this was to make up for a revenue deficiency in 1983 and 1984. (AGT main argument p.7.4.2-10).

The Committee's Position

In the Committee's view the City is correct. Consistent with its position that adjustments under the CRT must reflect actual revenues and expenditures wherever possible, it accepts the City's calculated rate of return for AGT of 15.6%. Applying this rate to the rate base figure of $401,708,056 provides a required operating income figure of $62,666,456, or a quarterly requirement of $15,666,614. (The Committee would note that if it had accepted the AGT allowed rate of return of 13.14805% as the appropriate 'et' rate of return for CRT purposes, the required operating income for 'et' for the first quarter would have been $13,204,194.)

The Committee's Conclusions

Based on the above, it is the Committee's view that the total payment to 'et' under the CRT for the first quarter of 1985 would be $15,144,869. The Committee has summarized its application of the CRT for the first quarter of 1985 in Table VII below.

TABLE VII

COMPARATIVE REQUIREMENTS TEST APPLIED TO 'edmonton telephones'

FIRST-QUARTER 1985

Revenues:	
Local	$42,899,354
Toll interprovincial	921,410
Directory & Sales	4,708,749
Other	2,986,085
'et' Rate Adjustment	(6,557,085)
AGT ICA Toll Payments	(3,742,629)
Total Revenues:	**$41,197,874**
Expenses:	
Maintenance	$ 8,207,783
Depreciation	14,274,616
Business Development & Sales	5,948,566
Taxes	3,148,134
Operations	9,097,030
Total Expenses:	**$40,676,129**
Net Operating Income	**$ 521,745**
Required Operating Income	$15,666,614
Payment to 'et' (Excluding interest)	$15,144,869

The Issue

(2.4) To what extent would the resulting revenue shares be fair and equitable?

The shares resulting from the pure AAB and the CRT (as applied by the Committee) are, in the Committee's view, both excessive, having regard to the subsidy requirement that may be unique to Alberta. For this and other reasons explained later, the Committee has accordingly developed a modified AAB formula which is outlined in the following section. That section also addresses the question of the extent to which the resulting revenue share is fair and equitable.

The Issue

(3.1) Does the term "dispute" mean the same thing in the Committee's Terms of Reference and in the Telecommunications Statute Amendment Act, 1985?

The City's Position

The City was quite specific in its reply to this question concerning the meaning of the word "dispute" in the Committee's Terms of Reference and in the Telecommunications Statutes Amendment Act, 1985. 'et' argued:

> "The term 'dispute' does not mean the same thing in the Committee's Terms of Reference and in the Telecommunications Statutes Amendment Act, 1985.
>
> The term 'dispute has a wider meaning in the Telecommunications Statutes Amendment Act, 1985 than in the Committee's Terms of Reference. The Committee is restricted by its mandate to settling the 'toll sharing dispute' between the City and AGT, while the Telecommunications Statutes Amendment Act, 1985 provides the special telecommunications tribunal with jurisdiction to settle any dispute between the City and AGT regarding the 'interrelationship' of their respective telecommunications systems. 'Dispute' in this sense is not restricted to a 'toll sharing dispute'." (City main argument, p. 221).

The Province's Position

The Province was somewhat ambivalent with respect to this issue. In summary, it said:

> "There is considerable doubt about whether the STT has the jurisdiction to develop or select a different toll sharing formula than selected by the AC - it may be limited to disputes as to the application and interpretation of the formula selected or developed by the AC. The jurisdiction of the STT over 'disputes' is considered the same under the M of U and the T of R, as in the Public Utilities Board Act, although the latter provides words of elaboration. Because of doubts as to the STT's jurisdiction, the AC can not abdicate its responsibilities to the STT." (Province's main argument, p. 6.1-6).

The Committee's Position

The mandate and jurisdiction of the STT as contained in the Terms of Reference is found under "B. Resolution of Future Disputes" in Section 1(b) Mandate":

- Deal with disputes between the two telephone companies but not regulate 'edmonton telephones'. Edmonton City Council will continue to set rates for 'edmonton telephones' subscribers. The Public Utilities Board will continue to set rates for Alberta Government Telephones subscribers. Existing management prerogatives are to be maintained.

- The Tribunal will not decide on matters respecting the mandate of either Alberta Government Telephones or 'edmonton telephones'. The mandate of Alberta Government Telephones and 'edmonton telephones' is defined in provincial legislation.

- Proceed under the Public Utilities Board Act.

However, the mandate and jurisdiction of the STT as contained in the Telecommunications Statute Amendment Act, 1985 is somewhat different. Section 123 of that Statute reads:

> (1) If a dispute arises between the City and AGT in respect of the interrelationship, either direct or indirect, of the telecommunication systems owned by them, the tribunal, on the application of the City or AGT, may settle the dispute after hearing the parties.
>
> (2) The tribunal has all the jurisdiction and power it requires to make any order it considers necessary to settle a dispute under subsection (1).
>
> (3) An order made by the tribunal under this section is binding on the City and AGT.
>
> (4) Notwithstanding subsections (1) to (3) and any order that the tribunal may make settling a dispute between the City and AGT,
>
> (a) the City shall continue to regulate the City system and set rates for City subscribers,
>
> (b) the Board shall continue to regulate the AGT system and set rates for AGT subscribers,
>
> (c) the existing management prerogatives of the City and of AGT shall be maintained, and
>
> (d) the tribunal shall not decide matters respecting the mandate of the City or of AGT as it is defined in a statute of the Legislature.

The Committee agrees with the City's position on this point. However, the Committee feels bound to say that, as regards the present proceeding, it considers its opinion on this particular issue to be in the nature of obiter dictum.

The Issue

(3.2) Does the Special Telecommunications Tribunal have authority to develop or select a different toll sharing formula than the one ordered by the Committee?

The City's Position

In the City's view, the STT does have authority to select a different toll sharing formula to the extent to which the entire formula is called into question in a future dispute between 'et' and AGT. Nonetheless, the City noted the clear intention of the Memorandum of Understanding to have the formula selected by the Committee apply on an ongoing basis. It also noted that the inclusion of the two Milvain principles in Section 7 of the AGT-Edmonton Telephones Act will bind the STT. ('et' main argument, page 224 and 225).

The Province's Position

The Province considered that the answer to the question under issue 3.2 would not be known until the STT or a court of competent jurisdiction decided the matter. The Province considered, however, that there is considerable doubt about the STT's ability to develop or select a different formula. The STT, in its view, could settle disputes over the application and interpretation of the formula selected or developed by the Arbitration Committee (AGT main argument, page 1.7-13).

The Committee's Position

In the Committee's view this issue requires more than a mere examination of the language of the Terms of Reference and the Statute. The dispute between the parties has persisted for many years. The changes, both technological and economic, that will occur in the telecommunications industry are far from predictable. The Committee believes that both the framers of the Terms of Reference and the framers of the Statute were anxious to create a mechanism to permit the companies to adapt to such changes with a minimum of difficulty and with a mutually recognized procedure. The formula which the Committee has selected must be the formula applicable from 1985 forward into the foreseeable future, but the Committee cannot foresee all of the changes that will occur in the industry or the problems they will give rise to.

Although it may alse be characterized as obiter dictum, the Committee finds that, in its opinion, the STT does have the authority to develop or select a different toll sharing formula than the one ordered by the Committee. The Committee notes, at the same time, that since the Milvain principles have been embodied in legislation, they will continue to bind the parties and the STT until they are changed by the Legislature.

SECTION VIII

THE COMMITTEE'S DECISION AS TO A FORMULA

By way of preliminary comment to its decision, the Committee would note that during the course of the public hearings, and in the written submissions filed, evidence was led by both sides which questioned the relative efficiency and practices of AGT and 'et' vis-a-vis each other or by comparison with other Canadian telecommunications companies. The Committee must admit that it has had a good deal of difficulty assessing this evidence. It is apparent that the characteristics, the make-up and the mix of customers served by AGT and 'et' are very different, and this has caused the Committee to question the practicality of the measures of comparison urged upon it by both sides.

In addition, some of the comparisons would make it necessary to reach conclusions on suggested adjustments to each company's operating statements, which would inevitably bring into question management decisions taken by each company.

To compound the problem of making comparisons, it must be borne in mind that the Terms of Reference which govern this Committee's deliberations, the Municipal Government Act (R.S.A. 1980 C-M-26) and the provisions of the Telecommunications Statutes Amendment Act (R.S.A. 1985 Ch. 52), make it abundantly clear that both AGT and 'et' are independent systems that have a legal right to exist as separate entities.

The Committee interprets these directions to mean that it should be very careful to avoid saddling AGT or 'et' with a formula that either intrudes upon their right to exist as separate entities or calls for a review of their internal management decisions. Quite clearly, the Special Telecommunications Tribunal set up to resolve future disputes is expressly prohibited by its statute, s. 123(4), from getting involved in internal management prerogatives or decisions.

In the opinion of the Committee, the proper approach to this portion of the toll sharing dispute was best summarized by Mr. Harry Hobbs, the Chairman of the Alberta Government Telephones Commission, when he made an opening statement to the Committee outlining the Province's view of the approach to take to the toll sharing dispute. He said, beginning at page 1864 of the transcript:

> "Also, AGT and Edmonton Telephones, in our belief, are good, well-run companies. Both are efficient and both have worked in close cooperation, in the planning and design of the provincial telecommunications network.
>
> The Alberta telephone network, AGT and 'et', is considered to be among the most modern in the world, was designed by highly skilled engineers from both companies, who continue, today, to plan cooperatively, the required changes to a very complex telecommunications system."

It is the Committee's view that both AGT and 'et' operate efficient, modern telecommunications systems that have provided excellent service to their customers and that little would be gained by the Committee attempting to make comparisons or to second guess management decisions. In short, the Committee feels it is not only prudent but

necessary to take the two companies as it finds them and to develop a toll sharing formula that meets its mandate.

On the basis of the factors reviewed in the previous section of this Decision, the Committee considers that the AAB should form the basis of the revenue settlement between the parties. It considers that an AAB-based settlement would provide fair and equitable treatment for all Albertans and that it is consistent with, and indeed balances, the requirements of the two Milvain principles.

At the same time, while it finds no fault with the manner in which the City has applied the AAB to the 1985 year, there are three principal reasons why it does not consider a pure AAB settlement to be appropriate in this case.

The first reason is that it considers the results to be excessive in the context of an Alberta settlement. It is very difficult to ascertain from the record whether any of the other Canadian AAB settlements between Bell Canada and the independent companies have taken into account any obligation on the part of the independents to provide funds to finance telephone services in their provinces of operation which are not self-supporting. This subsidy principle is, however, an integral part of this Committee's mandate, under both its Terms of Reference and provincial legislation.

Secondly, the Committee considers the "A" Commission and WATS formulae under the AAB to be unduly complex, and sees no reason why an Alberta toll revenue settlement need adopt the precise formulae employed in Quebec and Ontario for settlements between Bell Canada and the independent companies in those provinces. In this regard it notes that, what it would refer to as a modified AAB approach has been negotiated by the British Columbia Telephone Company and the City of Prince Rupert and has been approved by the CRTC.

Thirdly, the Committee considers that certain costs, which would be covered under a pure AAB, should be recovered under separate arrangements between the parties. As regards the costs to 'et' of toll billing (including bad debt) the Committee notes that as of 1986 'et' is performing the toll billing function, under a specific agreement between the parties that includes provision for compensation. As regards the costs of Telecom Canada advertising, which are also covered under the AAB, the Committee notes that AGT has indicated that it has not determined the advertising expense that should be allocated to this function. (Note 2 to ALTA(Committee)3(IV)R, Attachment 1).

The Committee has accordingly decided that a modified AAB formula, as outlined below, best satisfies the Terms of Reference and the Arbitration Committee's mandate in this proceeding.

In developing its modifications to the pure AAB, the Committee has been particularly mindful of the requirements of fairness and equity in regard to the quantitative result, and of practicality as regards the application of the formula.

As far as the result is concerned, the Committee considers that the first element that must be taken into account is the total of ICA toll-related payments already paid by AGT and received by 'et'. Based on the definition of toll accepted by the Committee, for 1985 this amount is $15,631,334 ('et'(Committee)3(i), Note 4). The Committee considers that this is an important quantitative element in determining the fairness of the settlement in that it reflects existing agreements between the parties which were negotiated at arm's length. It is, however, only one element, and both parties have recognized that the amounts to be

paid by AGT to 'et' in 1985 as a result of this proceeding require some increase beyond that amount, even though they are far apart on the quantum of the increase.

In determining what that amount should be, the Committee has attempted to select a figure that would result in comparable treatment to Edmonton and Calgary subscribers. In this regard the Committee notes the statement of Mr. Hobbs to the Committee that the close commercial ties between Edmonton and Calgary, and their dominant role in the provincial economy, make it imperative that they be treated alike in respect to telephone services and, in particular, that rates for the two cities be treated almost the same. (Transcript p.1866).

The selected figure should, in the Committee's view, also permit AGT to recover from Edmonton- generated toll revenues both its costs of Edmonton toll services as well as a fair contribution to non-self-supporting services outside Edmonton.

With regard to comparable treatment as between Edmonton and Calgary, as indicated elsewhere in this Decision, the Committee has found that during 1985 Edmonton telephone subscribers were required to pay $27,552,018 more for local telephone service than they would have had to pay under AGT rates in Calgary. In addition, as noted elsewhere in this Decision also, the Committee has found that the AGT toll contribution to Calgary, above and beyond $15,773,000 of private line toll payments, amounted to some $29,846,000 in 1984.

While that figure is almost $2.3 million above the differential in rates paid by the residents of the two cities in 1985, the Committee notes that it is partly based on actual figures and partly on subjective judgments. The Committee therefore considers that the lower of the two figures is a more reliable measure of the additional component of toll settlement required to place 'et' subscribers on an equal footing with AGT subscribers in Calgary. The Committee has accordingly decided that the City is entitled to an amount of some $27.55 million of toll revenues in addition to the ICA toll-related payments, in order that comparable treatment be provided to Edmontonians and Calgarians. For reasons discussed further below, the Committee is also satisfied that a toll settlement of the above magnitude would still permit AGT to recover its entire Edmonton toll-related costs, as well as receive a fair contribution to AGT non-self-supporting services, from toll revenues paid by 'et' subscribers.

Regarding the application of the AAB itself, as indicated above, the Committee is satisfied that it has been correctly calculated by the City in Exhibit 86. Accordingly for purposes of the Committee's modified AAB formula, except for the MTS, WATS and TWX heads of compensation (to be discussed further below), the Committee considers that in respect of all other heads, the settlement methodology and the amounts of compensation should be those utilized by the City to derive the compensation figures in Exhibit 86. The Committee notes that, as regards the EAS/EFRC and Interexchange heads of compensation, the total additional compensation to 'et' for 1985 over the ICA payments will be only some $1.3 million, and that in respect to EAS/EFRC alone, 'et' will actually be receiving nearly $2.4 million less than under the ICA.

With regard to MTS, WATS and TWX, it is these categories which, in part, give rise to the problems with the pure AAB settlement indicated above, both as regards the amount of compensation and the methodology involved.

With respect to the amount, as Exhibit 86 indicates, the pure AAB compensation for 1985 under the five pertinent heads totals $42,746,475. The Committee considers this amount to be excessive, given its view that toll billing and bad debt costs should be settled separately, and given the magnitude of total compensation decided upon, viz. some $43.18

million. Since $11.45 million would already have been produced under the non-MTS/WATS/TWX heads, $31.73 million must be recovered under the MTS, WATS and TWX heads. Applying the same proportions to the $31.73 million as the amounts under these heads bear to each other under the pure AAB, yields respective totals to be recovered as follows:

'A' Commissions	-	$27.60 million
TWX	-	.18 million
OUTWATS	-	.43 million
800 Services		
'et' termination	-	.55 million
AGT termination	-	2.97 million

As regards the appropriate method for generating the above total commission amounts, the Committee considers that the most practical method is to apply a dollar commission figure to all sent-paid and sent-collect messages in each of the categories (and to the actual 'et' 800 service terminations). The Committee notes that a similar approach was negotiated in the recent agreement between BC Tel and Prince Rupert (Exhibit 18), with the difference that that agreement compensates received-collect rather than sent-collect messages, in addition to the sent-paid messages. The Committee considers that in the case of 'et', sent-paid messages constitute the vast bulk of the messages subject to compensation and that the differences in the numbers of received-collect and sent-collect messages are not significant.

As regards MTS, the number of sent-paid sent-collect messages for 1985 can be estimated, using the same methodology employed by the City in Exhibit 86, as 36,062,016. Dividing that figure into $27.60 million provides a per call commission of 76.5 cents for each sent-paid and sent-collect message.

As regards TWX, using a similar estimation method, the number of messages is 290,744. The per message commission, dividing that amount into $.18 million would therefore be 62 cents.

With respect to OUTWATS, the number of sent-paid and sent-collect messages can be estimated at 2,952,840 and the per message commission established at 15 cents.

Turning to 800 Service, the number of messages terminated at 'et' can be estimated at 1,432,428, and the per call commission set at 38 cents. The number of sent-paid and sent-collect messages terminated at AGT can be estimated at 4,306,820 and the per call commission set at 69 cents.

On the basis of the above, the City's total share of the toll revenues generated in Edmonton for 1985 would be $43,175,169 and the amount due 'et' net of ICA payments and before interest would be $27,543,835 (see Table VIII below). As regards the four categories of MTS/WATS commission, the City's total share would be $31,546,417. (Adding TWX would bring the total to $31,726,678.)

In order to determine whether this settlement would permit AGT to recover its Edmonton toll-related costs as well as a contribution to non-self-supporting services, it is first necessary to ascertain the total amount of MTS/WATS revenues generated in Edmonton during 1985. While the record does not indicate this total precisely, it is possible, applying the method used by the City in Exhibit 86, to estimate a total 1985 MTS/WATS figure of some $161 million. (In its letter of January 23, 1987 to the Committee, the City provided an MTS/WATS revenue estimate for 1985 of $161,008,907. The Committee notes,

however, that this amount related to sent-paid and received-collect rather than sent-paid and sent-collect revenues, included TWX, and excluded 800 service AGT terminations).

As indicated earlier, the Committee has determined that Edmonton-generated toll traffic is 70% profitable. Therefore thirty percent of the total revenue figure, or $48.3 million would represent the costs incurred by AGT to provide MTS/WATS service to Edmonton.

The Committee notes Mr. Zielinski's evidence that $5,586,464 represents the pure traffic sensitive costs incurred by 'et' in providing MTS/WATS service in Edmonton (Exhibit 113). While the Committee considers this figure to be unduly low, in light of the evidence of Mr. Peterson that, based on Part 67 of the FCC Rules, 'et's traffic sensitive costs would be $15,227,848 (Exhibit 106), it is clear that some part of the total cost figure is comprised of 'et's costs of providing MTS/WATS service. Even if one accepted the lower figure suggested by Mr. Zielinski, deducting this figure from the $48.3 million total cost figure, would leave $42.7 million to be borne out of AGT's share of the 'et'-generated MTS/WATS revenues. Deducting this figure together with the 'et' share of $31.6 million from the $161 million total of 'et'-generated MTS/WATS revenues would leave $86.7 million available to subsidize non-self-supporting services in the rest of the Province.

Since, as noted earlier, the Committee has determined that the total Alberta subsidy required for non-self-supporting services outside Edmonton is $252.2 million, Edmonton toll subscribers would be contributing 34.4% of that total. In addition, since they would also be covering the entire local subsidy to Edmonton, Edmonton toll subscribers would be contributing over 40% of the total $279.8 million province-wide subsidy identified earlier. As the number of 'et's access lines is roughly 30% of the Provincial total, in meeting the above contribution levels Edmonton subscribers and 'et' would, in the Committee's view, be assuming their fair share of the Alberta subsidy burden, in satisfaction of the second Milvain principle.

Looked at another way, while the toll profit of $325.9 million indicated in ALTA('et')92 would be reduced by $27.5 million of additional payment to 'et' to some $298.4 million, it would more than cover the total local service deficit outside Edmonton of $252.2 million.

As regards other tests of fairness of the settlement it has developed, while the Committee recognizes that the quantum underlying the settlement has been based on ICA payments and the Calgary-Edmonton local rate differential, it considers, on the basis of the record before it, that the settlement is fair and equitable in a broader sense, that is, fair and equitable to all Albertans. In arriving at this conclusion, a number of yardsticks have been employed.

The Committee notes, for example, that under the CRT, as the Committee has applied it, 'et' would have received $8,665,198 more per quarter than under the modified AAB settlement it has developed. This figure is derived by subtracting the net first quarter modified AAB payment of $6,479,431 from the total first quarter CRT payment of $15,144,629.

The Committee notes also that although its settlement would still place 'et' at the low end of the range of comparable Canadian and U.S. telephone companies in regard to a variety of toll-related industry measures, including toll as a percentage of revenues, toll retention and toll revenue per access line, it would at least improve the current situation. Thus, in regard to toll revenue per access line, it would improve the figure from $29 to $130, compared to $155 for Prince Rupert, $125 for Thunder Bay, $356 for Manitoba Tel, $380 for Bell Canada, and $827 for AGT (a figure that would be reduced by some $35 after deducting the 'et' settlement). (Exhibit 8, p.VI-27).

The Committee also notes that, under its formula, the $31,546,417 'et' share of MTS/WATS revenues would represent a MTS/WATS retention rate of 19.6% (assuming $161 million of total Edmonton-generated MTS/WATS revenues). While this would represent an improvement over the current figure of approximately 6.6%, it would also be on the low end of the range of industry figures. Finally, the Committee observes that if the commission rates under the current Prince Rupert-B.C. Tel connecting agreement were applied to 'et' MTS/WATS sent-paid and sent-collect messages, 'et's share would be $31,070,746, compared to $31,546,417 under the Committee's settlement.

As far as the reliability of the formula over time is concerned, the Committee has given this matter a great deal of consideration.

Examining the main elements it has taken into account in determining the quantum of a fair and equitable settlement, the Committee notes that Calgary local rates have, for some years now, been well below those in Edmonton and that, indeed, in 1983 the differential in local revenues was calculated by 'et' to be some $29.15 million (Exhibit 9, Tab 9, Exhibit VI). It notes also that ICA toll-related payments have ranged from just under $14 to $15.73 million between 1982 and 1985 (Exhibit 9, Item 32 and 'et' (ALTA) 143). By contrast, the MTS/WATS revenues generated in Edmonton during that same period have run from some $130 million ($127.8 for MTS alone in 1982 - Exhibit 9, Tab 15, AGT-7) to some $161 million.

It therefore appears to the Committee that the estimated 1985 MTS/WATS retention rate of 19.6% resulting from its formula would be no higher - and likely a good deal lower - than the retention rate under its formula if it had been in effect in previous years.

In order to ensure, however, that the settlement remains fair and equitable for the foreseeable future, the Committee has determined that as part of its formula, the MTS/WATS retention rate should be calculated at the end of each year. Where that rate falls outside the range of +/- 0.5% of the 1985 rate which, based on the Committee's estimate, would be from 19.1 to 20.1%, an adjustment to the total of MTS and WATS payments should be made to bring it back into that range. This, in the Committee's view, should ensure that the formula remains sensitive to toll rate and traffic volume changes.

On that basis, the Committee considers that the modified AAB settlement it has decided upon is fair and equitable over the longer term.

As regards the matter of compensation to the City for toll billing and bad debt, while the Committee recognizes that this would be covered under a pure AAB settlement, such compensation is not covered under the modified AAB settlement developed by the Committee. Indeed, the Committee does not consider that this matter forms part of its mandate. As mentioned earlier, the parties have already entered into their own arrangements to cover this area starting in 1986.

The Committee's mandate was expressly restricted to settling the toll revenue sharing dispute, with toll billing forming a separate heading under the Memorandum of Understanding, and with provision made for a review by the STT.

While the Committee has been informed that a billing agreement has been entered into and that it contains provisions for compensation to 'et', this agreement was not formally placed before it; nor was evidence presented to the Committee as to 'et's toll billing and bad debt costs.

The Committee accordingly considers that the compensation for toll billing and bad debt expenses incurred by 'et' is a matter for settlement outside the scope of this proceeding.

Finally, as to the matter of interest, the Committee considers, based on general dispute settlement principles, that it would be appropriate for AGT to pay interest to 'et', at least on the amount calculated by the Province to be due 'et' under the CRT. Indeed this principle was recognized by the Province in Minister Bogle's earlier offer to the City. Since the matter of interest was not, however, contemplated in the Memorandum of Undertaking, the Committee does not consider that it has the jurisdiction under its mandate to impose such interest in the present decision.

The table below represents the shared revenue for the initial three-month period of the agreement.

TABLE VIII

THE COMMITTEE'S SETTLEMENT, 1985

	JANUARY	FEBRUARY	MARCH	1st QUARTER	ANNUALIZED
MTS	$ 1,977,533	$ 2,216,494	$ 2,102,283	$ 6,296,309	$ 27,587,442
TWX	14,479	13.731	13,202	41,412	180,261
OUTWATS	37,781	35,193	40,509	113,483	442,926
800 Service					
'et' Termination	15,360	45,360	45,360	136,081	544,323
AGT Termination	245,792	231,685	265,449	742,926	2,971,706
ANI	102,471	128,532	120,905	351,908	1,461,386
900 Service	8	9	28	45	180
Linehaul	72,747	72,747	72,747	218,241	872,962
CAMA	12,255	12,255	12,255	36,765	147,060
EAS/EFRC					
Joint provisioning	(119,324)	(119,324)	(119,324)	(357,972)	(1,431,884)
Surcharge (net)	56,619	56,625	56,523	169,767	679,284
Interexchange					
cable mileage	479,453	479,453	479,453	1,438,359	5,580,581
terminal commission	344,912	344,912	344,912	1,034,736	4,138,942
SUB TOTAL	**3,270,086**	**3,517,672**	**3,434,302**	**10,226,060**	**43,175,169**
Deduct ICA payments	(1,274,585)	(1,198,478)	(1,269,566)	(3,742,629)	(15,631,334)
NET AMOUNT DUE TO 'et'	**$ 1,995,501**	**$ 2,319,194**	**$ 2,164,736**	**$ 6,479,431**	**$ 27,543,835**

SECTION IX

DISSENTING OPINION OF BLAINE ARCHIBALD

1. THE ARBITRATION COMMITTEE MANDATE - ITS REQUIREMENTS

(a) The primary or principal governing principle of the Mandate of the Arbitration Committee is,

> "The Arbitration Committee will develop or select a practical toll sharing formula for the sharing of toll revenues generated in the City of Edmonton in a manner which provides fair and equitable treatment for all Albertans."

(i) The Arbitration Committee will either develop the toll sharing formula or it may select one that has already been developed.

(ii) The toll sharing formula will be practical. This suggests that the Committee's task is not simply to find a formula that is theoretically correct or ideal but also one that will work in real life - one that can be easily and readily applied without an undue amount of cost or complications. To be practical, the formula must not be inconsistent with the requirements of the provisions of the Public Utilities Board Act and other provincial legislation applicable to AGT and/or 'et'. In addition, for the formula to be practical, it should (as generally agreed by the parties to the proceeding) be logical in basis, free from controversies of interpretation, predictable and stable with respect to revenue shares derived, flexible and adaptable in its ability to meet changing conditions, and understandable and auditable. However, one must recognize, considering the complex nature of the matter to which the mandate applies, that it is difficult if not impossible to find a simple, uncomplicated formula.

(iii) The prime requirement of the primary governing principle is that the formula must provide "fair and equitable treatment for all Albertans". The formula cannot be one which provides an inadequate or excessive share of toll revenues to either AGT or 'et' (whose customers of each in total constitute the major portion of "all Albertans"). While fairness and equity normally are highly subjective notions, guidance for determining fairness and equity in this case is provided by the Milvain Committee principle (as discussed more fully below) which states, "In the case of Alberta telephone companies they accept the obligation to provide funds to finance telephone services which are not self-supporting". While "fairness and equity" could ordinarily indicate that all Albertans should pay a price for the telephone services equal to the cost of the services they demand, in this case it clearly has a different meaning.

Inherent in AGT's rate structure are cross-subsidies. Toll revenues subsidize local revenues. Total revenues from large urban centres subsidize high cost small urban centres and rural areas; high density toll routes such as the Edmonton-Calgary route subsidize low density toll routes; and business customers subsidize residence customers. Cross-subsidies built into telephone company rate structures are common throughout North America. Traditionally, in the pricing of telephone services, toll revenues substantially exceed toll costs which subsidize local service where, oftimes, local costs exceed local revenues. This practice is known as "value of service pricing" which is based on the theory that those who are providing the subsidy receive a benefit in that they are able to reach more people by

telephone, as many people would not be able to afford telephone rates if those rates fully recovered the costs of providing the service (universality of phone service).

It should be recognized that AGT is regulated by the Public Utilities Board of Alberta under the provisions of the Public Utilities Board Act. The Public Utilities Board examines the capital costs and the operating and maintenance costs of AGT (as to whether prudently incurred and reasonable in amount) and then determines AGT's utility Revenue Requirement which sets the level of AGT's rates which it charges its customers for telephone service provided to them. AGT's rates, including their level amongst customer groups, their design and structure, are required by the Public Utilities Board Act to be fixed and approved by the Public Utilities Board as being just and reasonable, and not unjustly discriminatory or unduly preferential. AGT's rates for basic toll and basic local telephone services cannot be changed without the approval of the Public Utilities Board.

Since the ultimate sources of all funds available to telephone companies are their charges to customers for service, the above mentioned Milvain Committee principle plainly means that some Albertans must pay more than their cost of telephone service so that other Albertans can pay less than their cost of telephone service.

With respect to the subsidies, the result is "fair and equitable" for "all Albertans" if the subsidies achieved by charging some Albertans more than their cost of service are provided only to those who could not otherwise afford telephone service. Those who are providing the subsidy in these circumstances receive a benefit in that they are able to reach more people in Alberta by telephone than they would otherwise be able to reach. By paying the subsidy, they increase the value of their own telephone service. By contrast, it would not be "fair and equitable" to provide subsidies for services that are self-supporting, since those who are providing the subsidy would not thereby achieve an increase in the value of their telephone service. In short, subsidies for "self-supporting" services are not required by the above mentioned Milvain Committee principle and would not be "fair and equitable" to "all Albertans".

The other elements of the formula (including any recovery of toll costs and any sharing of "profits") must likewise be fair and equitable to all Albertans in order that the formula provide "fair and equitable treatment for all Albertans".

The formula for the sharing of toll revenues generated in the City of Edmonton (including the sharing of the obligation to provide funds to finance telephone services which are not self-supporting) must not only provide fair and equitable treatment for all Albertans, but it must appear to do so.

(b) In developing or selecting the formula the Committee will be guided by the two Milvain Committee principles:

> "(1) Telephone companies are entitled to a share of the toll revenue generated based on usage, and
>
> (2) In the case of Alberta telephone companies, they accept the obligation to provide funds to finance telephone services which are not self-supporting."

It should be noted that whereas the primary or principal governing principle (set out in paragraph 1(a) above) requires that the formula provide "fair and equitable treatment for all Albertans", the Committee will only "be guided by the two Milvain Committee principles". This does not mean that the Committee does not have to give effect to the two Milvain

Committee principles but it does mean that after giving effect thereto the formula must provide "fair and equitable treatment for all Albertans". If it were impossible to accomplish the one without the other, then the two Milvain Committee principles (or either of them) would have to give in favour of the formula providing "fair and equitable treatment for all Albertans".

(i) "Telephone companies are entitled to a share of the toll revenue generated based on usage."

It is the usage of the toll telephone system which causes or creates the toll revenues and the toll costs. Therefore it is my opinion that a formula which is based on toll revenues and/or toll costs, or directly on usage, or ratios thereof, or a combination of the same, would meet the requirement of this Milvain Committee principle. It is my opinion that for "a practical toll sharing formula for the sharing of toll revenues generated in the City of Edmonton" to provide "fair and equitable treatment for all Albertans" that such formula must be based on, or at least give effect to or be reflective of, the relative revenues and costs of providing telephone services in Alberta, including local and toll services in Alberta and toll service extending outside of Alberta.

(ii) "In the case of Alberta telephone companies they accept the obligation to provide funds to finance telephone services which are not self-supporting".

This explicit requirement is unique to the Arbitration Committee's mandate and is not present in any other toll settlement arrangements in Canada and perhaps North America and the world.

The formula must make provision for each of AGT and 'et' to provide funds to finance telephone services which are not self-supporting.

This obligation to provide such funds extends to all telephone services in Alberta which are not self-supporting including those in AGT's service area and those, if any, in 'et's service area. Those telephone services in Alberta which are not self-supporting are those telephone services in Alberta where the costs of such services exceed the revenues from rates charged for such services.

The obligation of AGT and 'et' is to provide funds to the extent of the excess of costs over revenues for such services.

The sharing of the obligation between AGT and 'et' (as built into the formula) must be such that the formula provides "fair and equitable treatment for all Albertans". Reference is also made to paragraph 1(a)(iii) above.

(c) "The Arbitration Committee through the application of the formula shall determine the shared revenue for the initial three-month period of the agreement and the two companies will thereafter use the formula for ongoing toll settlements..."

The "toll revenue sharing to be calculated from January 1, 1985."

Therefore the Arbitration Committee, through the use of the formula it develops or selects, must determine the shared revenues for the first three months of 1985.

(d) "The Committee's mandate will be restricted to settling the toll revenue sharing dispute".

(e) "Any majority decision by the Arbitration Committee will be final and binding on both parties".

It is my opinion that although the Special Telecommunications Tribunal does not have the authority under its mandate to replace or to amend the toll sharing formula developed or selected by the Arbitration Committee, the Special Telecommunications Tribunal does, inter alia, have the authority to deal with future disputes between AGT and 'et' with respect to the interpretation and/or application of such formula.

It is interesting to note the statement made by AGT at page 1.5-2 of its Argument -

> "that no Canadian regulatory authority has attempted to settle a toll sharing dispute or develop or select a toll revenue settlement formula for sharing of toll revenues other than the Committee of Inquiry to the CRTC in the Prince Rupert case".

Further I agree with the AGT statement made at pages 1.5-2 and 1.5-3 of its Argument -

> "The AC will have accomplished its task if it develops or selects a formula which will be readily accepted by the parties and all Albertans as being fair and equitable and is accepted by regulators who may examine it from time to time. In this regard, if the formula is accepted as being reasonable by independent regulators which now do, or in the future may, exercise jurisdiction over AGT or 'et' (upon whom it is not binding, but whom will accept it only based on the weight of its technical merit) it will last to settle toll revenue sharing disputes between AGT and 'et' for a lengthy period of time and the AC will have accomplished its task as set out in the M of U and the T of R and will have gained a reputation for technical excellence in telecommunications history in Alberta, Canada and the United States".

2. EVALUATION OF THE ALTERNATE APPENDIX 'B' (AAB)

A description and the evolution and history of the AAB is set out by the Committee of Inquiry in the Prince Rupert case, in its Report (Appendix 5 of Exhibit 57) at pages 25-45.

The major problem with the AAB is its failure to address the explicit requirement of the Arbitration Committee's mandate that 'et' (as well as AGT) accept the obligation to provide funds to finance telephone services in Alberta which are not self-supporting. Its failure to do so would also mean that the AAB would provide a result that would not be fair and equitable treatment for all Albertans. The AAB does provide a substantial subsidy to 'et' over and above the toll costs to 'et' (however determined) of providing toll service to its subscribers in the City of Edmonton without regard to any subsidy requirements (non-self-supporting telephone services) within 'et's service area or within AGT's service area.

From the evidence on the record it would appear that profitability of local telephone service in Alberta varies greatly with the size and the location of the communities served; the costs are the highest and local revenues are the lowest in small communities; high cost areas include many of Alberta's smaller urban communities as well as rural areas; because the differences between local costs and local revenues increases with decreasing size of the community, the smaller communities must be given more subsidy than the larger

communities from toll or other sources to give them affordable local rates; and in the larger cities, such as Calgary and Edmonton, comparatively little if any subsidy from toll to local is required.

If the AAB is appropriate for use in toll revenue settlements between Bell Canada and its independents in Ontario and Quebec, then considering the fact that none of those independent companies are required to pay any subsidy to support the provincial telephone system and considering the difference in size between those independent companies and 'et', the AAB does not meet this requirement of the mandate of the Arbitration Committee. The AAB has no element or component that relates to any area outside of 'et's service area and therefore would exclude any consideration of non-self-supporting telephone services outside of Edmonton. The AAB was designed (through negotiation between Bell Canada and each of its independent-connecting companies) to ensure the commission levels are such that the economic well-being of each individual independent company (all being very small systems compared to 'et') is maintained.

The AAB methodology proposed by 'et' is loosely based on the settlement scheme used by so-called Average Schedule Companies in the United States. The AAB methodology develops an average cost from a portion of the fixed and variable costs of a number of different telephone companies in the United States industry as well as an average toll usage for the companies. By relating average costs to average usage, a revenue per message payment is calculated. As stated by the Committee of Inquiry, in its Report (Appendix 5 of Exhibit 57) at page 44,

> "A certain mystique has built up about the settlement results generated by the "A" Commission schedule, perhaps intensified by the fact that the figures involved are set out with three decimal place accuracy. In reality, the average settlement schedule in the United States is used only as a matter of convenience in order to facilitate the calculation of compensation levels for smaller systems which are not prepared to carry out their own cost study." (Emphasis added).

'et' is of a size and generates sufficient revenues to make it worthwhile to carry out its own cost study. At the time Bell Canada commenced to use the AAB as the basis of settlement with its connecting companies in Ontario and Quebec, there were no studies performed to determine if the United States average costs related well to Canadian costs or if the allocations used in the U.S. were appropriate for Canada. Over the years since its introduction by Bell Canada in Canada, the factors have been changed many times through the process of negotiation without any cost studies relating to Canada. There is no relationship between the commission schedule used in the AAB and the operations of AGT and 'et'. As stated by the Committee of Inquiry in its Report (Appendix 5 of Exhibit 57) at pages 44 and 45,

> "The relevance of this factor to Canada is obvious. Assuming that average schedules such as the "A" commission in Bell Canada's Alternate Appendix "B" provide adequate compensation for local operating companies with costs at levels comparable to the average costs employed to structure the particular ARPM/commission per message schedule this will not necessarily apply where specific companies incur costs which are greater or lesser than average. In such cases, the average schedule would result in inadequate or excessive compensation" (Emphasis added).

Therefore under the AAB, as proposed by 'et', compensation paid to 'et' would not be specifically related to 'et's own costs of providing service. It would be the product of the number of toll messages originating in the City of Edmonton and the revenue per message dictated by the AAB schedule. The "A" commission in the AAB is arbitrary in nature and would not adjust to changing conditions including changing revenues and costs and the inter-relationship of the two of both 'et' and AGT over time.

I am convinced that in order for a toll sharing formula for the sharing of toll revenues generated in the City of Edmonton between AGT and 'et' to provide fair and equitable treatment for all Albertans, that such formula must be based on or be reflective of the relative costs and revenues of AGT and 'et' (including the determination of and the sharing of the subsidy requirements of both AGT and 'et').

As set out in paragraph 1(b)(i) above, I am of the opinion that a formula which is based on toll revenues or toll costs or directly on usage or ratios thereof, or a combination of the same, would meet the requirement of the mandate of the Arbitration Committee that it be "based on usage".

Costs and cost relationships between different types of telephone services in Alberta as well as revenues and the inter-relationship between the two, are bound to change over time in the future (at least to some degree) for the reasons set out by AGT on pages 119R-121 of Exhibit 57. There have been newspaper reports of an announcement by the Government of Alberta that it intends to convert multi-party line service to individual line service in rural Alberta in the next few years. If this program goes ahead, it will substantially increase the cost of local service in rural Alberta and probably materially change the cost-revenue relationship of the same which in turn would materially change the subsidy requirements in rural Alberta. The AAB would not react to such change and therefore 'et', under the AAB methodology, would not participate with AGT in providing the increased funds to finance telephone services which are not self-supporting.

The mandate of the Arbitration Committee requires that "the two companies will thereafter use the formula for ongoing toll settlements". In order that the formula continue to provide "fair and equitable treatment for all Albertans" for ongoing toll settlements, it must be such that the resulting settlement will reflect such changing conditions. The AAB as proposed by 'et' does not do so.

The reasons given by the Committee of Inquiry in its Report (Appendix 5 of Exhibit 57 at pages 61 and 62) for not using the AAB as "determinative of the settlement for Prince Rupert" are relevant to the subject proceedings. They are,

> "(a) The ARPM curve upon which the 17% commission was taken was patterned after an average U.S. schedule based on an allocation of costs for intrastate calls for a number of U.S. exchanges. While this curve has been used for a number of years as a benchmark for Ontario and Quebec settlements, there have been no adequate studies, in the committee's view, to indicate whether the curve is fundamentally fair to the independent companies in Canada. In particular, one would have expected to see comparative studies to assess how the curve should be readjusted to take into account relative Canadian costs and message toll levels. The inadequacies of the existing studies are noted in Part Two.
>
> (b) In any event, the actual percentage which should be applied to Prince Rupert through the use of the ARPM curve is not certain. B.C. Tel has advocated using the Alternate Appendix "B" (1975) curve, which results in a commission of 17.05% for an ARPM of $3.25. If one uses the Alternate Appendix "B" (1977) curve, however, one

obtains a commission of 18.22% for the same ARPM. The curve currently in use in Ontario and Quebec, namely, the Alternate Appendix "B" (1977) Revised, results in a commission of 18.74% for an ARPM of $3.25. On the other hand, even these commission rates may be too high, since Prince Rupert states that its actual ARPM level is between $3.50 and $4.00. Taking an ARPM level of $3.75, the commission rate under the Alternate Appendix "B" (1977) Revised curve would be 16.6%.

(c) More important, it is clear to the committee that the ARPM curve was never constructed with systems such as Prince Rupert in mind. There are, so far as the committee is aware, few if any independent telephone systems in the United States and none in Canada with an ARPM level as high as that of Prince Rupert. The characteristics of Prince Rupert, namely, very little traffic with nearby centres and the bulk of toll calling to Greater Vancouver, 470 miles (750 km) distant, combined with a message toll schedule higher than the average U.S. level, make it unique. As Prince Rupert has noted, "the makeup of the scales...is virtually perfunctory at the higher levels (i.e. few if any companies are expected to be in that range)". The committee agrees. The use of the ARPM curve to determine the appropriate level of commission for Prince Rupert should therefore be treated only as a first approximation.

(d) As noted in Part Two, independent companies with exchanges employing the average settlement in the U.S. are given the option of using specific exchange costs to determine the amount of toll compensation, whenever the company considers that the use of average settlement schedules could result in settlements not reasonably representative of its costs. Had Prince Rupert been located in the United States, it could have elected to carry out such a study if it was dissatisfied with the average settlement. This reinforces the committee's view that the ARPM curve should not be used as the final determinant for settlement results."

The AAB appears to be "practical" in that it meets at least some of the criteria mentioned in paragraph (1)(a)(ii) above. However, in my opinion it is not practical in that it does not "dovetail" with the requirements of the provisions of the Public Utilities Board Act of Alberta (which basically uses a cost approach to determine the level of just and reasonable rates and the design and structure of rates which are just and reasonable and not unjustly discriminatory or unduly preferential); in fact the AAB as proposed by 'et' may well be inconsistent with the requirements of the provisions of the Public Utilities Board Act which would create problems with respect to the regulation of AGT by the Public Utilities Board. Although 'et' is not subject to the provisions of the Public Utilities Board Act, AGT is and its participation under the formula of the Arbitration Committee will be subject to such provisions.

It would appear to me that the AAB provides a settlement for some services that should not be considered toll in the context of the subject proceeding. More will be said in this respect under Section IX-5 below. It is recognized that AGT uses some 'et' services for which it pays 'et' its tariff rates and that some of such services are not toll services.

The AAB is relatively simple and easy to calculate and apply. This simplicity and ease of calculation and application (not of understandability) is desirable but it must meet the other requirements of the mandate of the Arbitration Committee. In my opinion it falls far short of doing so, as set out above.

3. EVALUATION OF THE COMPARATIVE REQUIREMENTS TEST (CRT)

Conceptionally, the CRT well satisfies the prime requirement of the primary governing principle of the mandate of the Arbitration Committee that the formula selected or developed must provide "fair and equitable treatment for all Albertans" including the sharing of "the obligation to provide funds to finance telephone services which are not self-supporting".

The CRT is based on the concept set out by the Committee of Inquiry in the Prince Rupert case,

> "Assume the local connecting company and its subscribers were transformed into a similarly situated community within the toll company's operating area. Then the local company should obtain a level of compensation from the toll company which will ensure that its subscribers are treated substantially the same as those in the similarly situated community in the toll company's territory". (Page 66 of Appendix 5 to Exhibit 57).

As stated by the Committee of Inquiry in the Prince Rupert case, the CRT requires a review of the operating and financial data of the local connecting company. Following the review, equalization and/or adjustments may be necessary to the revenues and costs (including a return on rate base) of the local connecting company to ensure that the same would be equal to what they would be if the local connecting company were situated in the toll company's territory. Quality of local service would be considered and equalized as indicated by the Committee of Inquiry,

> "Where the revenue requirement of the connecting company is increased by the need for expenditures to improve the quality of rural service, for example, and these expenditures are considered reasonable, then the company may benefit from transfer payments from the major company to this extent, just as a rural area within the major company's own operating area would receive such benefits." (Page 68 of Appendix 5 to Exhibit 57).

Properly applied the CRT would provide a fair and equitable treatment to all Albertans, including the sharing of the obligation to provide funds to finance telephone services in Alberta which are not self-supporting.

As stated by the Committee of Inquiry in the Prince Rupert case,

> "Obviously the result of the comparative requirement test may or may not be different from the results of a purely cost based test. But any departure from cost will necessarily reflect subsidies or transfers that are taking place within the major company in any event. While the test does not assist in measuring the amount of such subsidies, it at least achieves a basic fairness in that subscribers of the connecting company and the major company will be treated alike." (Page 66 of Appendix 5 to Exhibit 57).

It is important to remember that in regulating AGT, the Public Utilities Board is required to fix and approve the levels of and the design and structure of basic toll and basic local rates of AGT that are just and reasonable and not unjustly discriminatory or unduly preferential, based on a revenue requirement that includes costs that are prudently incurred and reasonable in amount and a fair return on rate base. This ensures that all subscribers in

AGT's service area are treated alike (or treated in a just and reasonable, fair and equitable manner), including the subscribers of 'et' if under the CRT.

The CRT is a "practical toll sharing formula" as described in paragraph 1(a)(ii) above.

The CRT meets the requirements of the mandate of the Arbitration Committee that AGT and 'et' "accept the obligation to provide funds to finance telephone services which are not self-supporting" including the requirement that this obligation be shared in a manner that provides fair and equitable treatment for all Albertans, as set out above in this Section IX-3.

The toll sharing formula which the Arbitration Committee is to develop or select is for the specific purpose set out in the mandate "for the sharing of toll revenues generated in the City of Edmonton". The CRT does not focus on toll revenues generated in the City of Edmonton; however the CRT is a method of determining a commission rate and after having determined the same, can be applied to toll revenues generated in the City of Edmonton (as proposed by AGT) as to the number of toll messages, and it is therefore necessary to determine what constitutes toll services (giving rise to toll revenues generated in the City of Edmonton) in the application of the CRT. It is true the CRT is not directly applied to the toll revenues generated in Edmonton.

One of the requirements of the mandate of the Arbitration Committee (upon which the Arbitration Committee is to be guided) is that AGT and 'et' "are entitled to a share of the toll revenue generated based on usage". The development of the amount of the share of 'et' under the CRT is not directly based on usage as the usage, in terms of its number or length of toll calls in Edmonton, could vary considerably without any effect on the said amount. It is true that the amount is applied as a commission to the number of toll calls; and it is true that the development of the amount is at least indirectly based on the costs of 'et' which will vary with usage.

The results of the "Sensitivity Test" performed by 'et' with respect to the CRT is disturbing to me. If AGT were to increase its local rates by 6%, 'et's share of toll revenues would (at least theoretically) drop to zero. It is true that AGT stated many times during the course of the subject proceedings that AGT's position is that 'et' would receive, as a minimum payment under the CRT, compensation for its causal toll costs including a reasonable rate of return on its investment in toll related equipment and facilities. It is also true that under regulation by the Public Utilities Board, AGT cannot simply increase its local rates by any amount without some off-setting changes in other factors; either AGT's revenue requirement must have increased for some reason or some other rates (presumably toll rates) must be reduced. However it still remains that the CRT itself could at least theoretically result in no share to 'et' if AGT's local rates were to increase by a relatively small amount.

I am satisfied that the CRT could not be manipulated by AGT since the only factor that AGT can change is its local rates and that can only be done with the approval of the Public Utilities Board. Any change in AGT's basic toll rates would also require the approval of the Public Utilities Board.

I am convinced that the CRT (properly applied) is a reasonable surrogate of a properly designed and properly applied Cost Approach. However I prefer the Cost Approach hereinafter described.

The problem with the CRT (in my opinion) lies in the application of the concept in the subject matter. There is great diversity between the parties to the subject proceedings, particularly with respect to the application of the concept and the resulting numbers. The

arguments between the parties during the course of the subject proceedings would no doubt continue although the STT could arbitrate disputes with respect to the application of the CRT. There are numerous subjective evaluations that would be necessary to assess the quality of service and construction programs of 'et' and its rate of return, as well as the reasonableness of its operating and maintenance costs.

The calculations, under the CRT, of 'et's share of the toll revenues generated in the City of Edmonton for the first three months of 1985, performed by 'et' and by AGT, are so diverse as to be unbelievable. The majority decision of the Arbitration Committee attempted to "resolve the underlying differences" (in Section VII, pages 69-78 hereof) and shows its calculation of the CRT in Table VII (page 78). I am unable to accept the calculations in Table VII, particularly with respect to the items "'et' Rate Adjustment", "Taxes", "Required Operating Income", and the lack of a "Depreciation Adjustment". The reasons for my non-acceptance of the calculations in Table VII are found in this, my dissenting opinion.

The CRT, if properly applied, would generally meet the requirements of the mandate of the Arbitration Committee. However, the Cost Approach described in Section IX-5 below is preferred by me for the reasons set out in Sections IX-5 and IX-6 below. Certainly, the Cost Approach and the CRT (properly applied) are superior to the Modified AAB and far superior to the AAB in terms of meeting the requirements of the mandate of the Arbitration Committee.

4. EVALUATION OF THE MODIFIED AAB

The majority decision of the Arbitration Committee (which "will be final and binding on both parties") developed or selected what it refers to as the Modified AAB, as the toll sharing formula for the sharing of toll revenues generated in the City of Edmonton.

Under the Modified AAB formula, based on 1985 data, the total amount of 'et's share of toll revenues generated in the City of Edmonton is $43,183,352. The total of $43,183,352 is made up of two components, firstly $15,631,334 (which the majority decision considered to be the total 1985 ICA toll-related payments already paid by AGT and received by 'et') and secondly, $27,552,018 (which the majority decision considered to be the additional amount in 1985 that 'et's subscribers were required to pay for local telephone service than what they would have had to pay under AGT's rates in Calgary).

The majority decision considered that of the total of $43,183,352, 'et' should receive $11.45 million under the non-MTS/WATS/TWX heads (using 'et's methodology and calculations in Exhibit 86) and the balance of $31.73 million under the MTS, WATS and TWX heads (using a table to develop a dollar amount for each head and then a commission schedule for applying a dollar commission figure to each message eligible for commission in each head, with the number of messages being estimated in each case).

In an attempt to ensure fair and equitable treatment for all Albertans, the majority decision provides at page 87:

> "In order to ensure, however, that the settlement remains fair and equitable for the foreseeable future, the Committee has determined that as part of its formula, the MTS/WATS retention rate should be calculated at the end of each year. Where that rate falls outside the range of +/-0.5% of the 1985 rate, or 19.1 to 20.1%, an adjustment to the total of MTS and WATS payment should be made to bring it back into that range. This, in the Committee's view, should ensure that the formula remains sensitive to toll rate and traffic volume changes."

No description of any required adjustment is provided.

I have been unable to find a logical rationale upon which the Modified AAB is based, in terms of the requirements of the mandate of the Arbitration Committee.

I am persuaded that an equalization of local rates between Edmonton and Calgary is the first step in a toll sharing formula that would provide fair and equitable treatment for all Albertans, both with respect to the sharing of toll revenues generated in Edmonton and the sharing of the obligation to provide funds to finance telephone services in Alberta which are not self-supporting, although the equalization should be done between Edmonton and AGT's rate group 8 (which is the rate group that would be applicable if Edmonton were in AGT's service area). However, if one is to use Calgary as the "standard" (so to speak), then one must look also to the cost side of the picture, as well as the revenue side (and equalize or adjust), in order to provide fair and equitable treatment between Edmontonians and Calgarians. I would be prepared to use Calgary as the "standard" as it is fairly comparable to Edmonton in terms of telephone service; and more importantly, its revenues and costs (both capital and operating and maintenance) and its rates are subject to the provisions of the Public Utilities Board Act which requires that all costs of AGT (throughout its service area, including Calgary) be prudently incurred and reasonable in amount; and, with respect to its revenues, that its rates be just and reasonable and not unjustly discriminatory or unduly preferential both with respect to the level of revenues and with respect to their application between customer groups within its service area. Therefore, fair and equitable treatment between Edmontonians and Calgarians should mean fair and equitable treatment for all Albertans.

Of course to do so, (look at both the revenue and the cost sides and make any necessary adjustments), would really mean that one is using the CRT or the Cost Approach both of which I prefer over the Modified AAB.

From the evidence it is clear that currently, Calgary subscribers of AGT receive a benefit from AGT that the Edmonton subscribers of 'et' do not receive from 'et'. That benefit is the lower local rates paid for local telephone service. In 1985 that difference amounted to $27,552,018. It is important to remember that 'et' subscribers and AGT subscribers paid the same AGT toll rates. It is also important to remember that the $27,552,018 was the revenue result of the rate differential in 1985 and that the rate differential will vary with a change in either 'et's or AGT's local rates, which is bound to change over time as costs change.

There is no reliable evidence on the record that Calgary subscribers of AGT receive a benefit equivalent to $15,631,334 (for 1985) which the majority decision considers to be the total 1985 ICA toll-related payments made by AGT to 'et' and to be the other component of the Modified AAB formula. The positions of AGT and 'et', both with respect to the methodology and the resulting numbers, regarding the 1982 and the 1984 "Calgary Study" are so diverse as to render the results of the Calgary Study meaningless. It is for this reason that I consider the Calgary Study provides no reliable evidence.

'et's version of the 1984 "Calgary Study" provides a result which suggests that AGT's operations in Calgary are $78.6 million less profitable than 'et's operations in Edmonton. I find it impossible to accept such a conclusion after considering the telephone systems and their operations in each city. If I had to make a choice between AGT's and 'et's calculations of the "Calgary Study" (both the 1982 and the 1984) I would have to assume that, as it is AGT which operates the telephone system in Calgary, AGT's sworn evidence with respect thereto is more reliable than that of 'et'.

If it is not evident that Calgary subscribers of AGT receive an equivalent benefit with the $15,631,334 paid to 'et', then fair and equitable treatment of Calgarians with Edmontonians is not apparent and (quite rightly) Calgarians will have a complaint. The $15,631,334 will be paid to 'et' by AGT (out of toll revenues generated in the City of Edmonton) under the Modified AAB each year into the future irregardless of the costs borne by 'et' and AGT in providing toll service to the City of Edmonton.

If the sharing of the toll revenues generated in Edmonton is not done on a basis that provides fair and equitable treatment to all Albertans, then those municipalities in Alberta (including Calgary and other cities and towns) who feel that 'et' is getting an advantage will clamour for permission to own and operate their own telephone system. This would fragment the telephone system in Alberta to such an extent that there would not be "universality" of telephone service in Alberta.

It is my contention that if you are going to use Calgary as the "standard", then you must not only equalize and adjust revenue items of 'et', but you must also equalize and adjust cost items of 'et' (in order to make Edmonton and Calgary comparable) for the purpose of developing or selecting a formula for the sharing of toll revenues generated in Edmonton in a manner which provides fair and equitable treatment for all Albertans. Currently, one cost item of 'et' that must be equalized and adjusted is the Revenue Tax mentioned a number of times herein.

The Modified AAB is not based on costs and revenues of AGT and 'et' of providing toll and local telephone services and, therefore, will not adjust to changing costs and revenues and the inter- relationship of the same. I am convinced that if the toll sharing formula is not so based that it will not provide and will not continue to provide fair and equitable treatment for all Albertans.

The $15,631,334 component of the Modified AAB formula is considered by the majority decision to be the total 1985 ICA toll-related payments already paid and received. The evidence on the record with respect to this item is confusing primarily because of the difference between AGT and 'et' as to what constitutes toll services and, therefore, toll revenues and toll costs within the City of Edmonton for purposes of the toll sharing formula. AGT's evidence is that 'et's causal toll costs (including competitive network costs) is $8,572,000 (AGT's response to Appendix "A" attached hereto) with respect to 'et's costs of providing toll service in the City of Edmonton in 1984. It would appear to me, based on the record, that the $15,631,334 is not causal costs; it includes some allocated common costs and some allocated joint costs, as well as a rate of return of 15%. I am not certain that it may also contain some costs that should be treated as local costs for purposes of the toll revenue sharing formula.

I am concerned about the sensitivity of the Modified AAB formula. The major component of the Modified AAB formula is the local rate differential between Edmonton and Calgary in the amount of $27,552,018 for 1985. The local rates applicable to Calgary and Edmonton could easily change so that there would be no differential or the differential could go the other way, so that the local rates in Calgary could exceed local rates in Edmonton. This could happen because of changes in costs of local services and because the rates of AGT and 'et' are not fixed and approved by a common Regulator. The Modified AAB uses the 1985 rate differential. If there were no differential in the rates, then 'et' would receive $27,552,018 less per year than that provided in the Modified AAB. Assuming that the $15,631,334 component is truly 'et's actual cost (with no profit element) of providing toll service in the City of Edmonton (with no local costs included), then the payment to 'et' under these circumstances of $15,631,334 in a year as its share of toll

revenues generated in Edmonton would not be fair and equitable to the subscribers of 'et' and, therefore, not fair and equitable to all Albertans. As indicated above, I am not satisfied that the $15,631,334 is 'et's 1985 actual cost of providing toll service in the City of Edmonton without including some costs that should be classified as local and without a profit element.

The Modified AAB formula provides that of the total $43,183,352 that 'et' will receive for 1985, $11.45 million will be paid under the "non-MTS/ WATS/TWX heads" and the balance of $31.73 million under a commission schedule under the "MTS, WATS and TWX heads". The Modified AAB formula then provides that the MTS, WATS and TWX ($31.73 million in amount) "retention rate should be calculated at the end of each year" and that where that rate falls outside the range of +/-0.5% of the 1985 rate, or 19.1 to 20.1%, an adjustment should be made to bring it back into that range. This means that the retention rate would remain fixed within that range regardless of any change in AGT's and 'et's costs and revenues with respect to providing local and toll telephone services in Alberta. I cannot visualize how this would provide fair and equitable treatment for all Albertans, particularly into the future. The majority decision states that the above mentioned adjustment (with respect to the retention rate) "should ensure that the formula remains sensitive to toll rate and traffic volume changes". This may be true, however, it certainly would not remain sensitive to the revenues and costs changes of AGT and 'et' in providing toll and local telephone services in the Province of Alberta.

The Modified AAB does not directly address the explicit requirement of the mandate of the Arbitration Committee that AGT and 'et' accept the obligation to provide funds to finance telephone services which are not self-supporting.

In addition, the Modified AAB suffers many of the defects set out in Section IX-2 of this dissenting opinion, although the method of determining the "A" Commission in the AAB is improved upon in the Modified AAB.

The 1985 share of 'et', produced by the application of the Modified AAB (in the amount of $43,183,352) is, in my opinion, substantially excessive in terms of the requirements of the mandate of the Arbitration Committee. Such share, for the year 1985, should not in any case exceed $27,552,018, in order to treat Edmonton telephone subscribers and Calgary telephone subscribers equally (and should be less, just considering the appropriate adjustment to 'et's "Taxes" of about $10 million). More important, the Modified AAB formula is not flexible and adaptable in its ability to meet changing conditions in the telephone industry within Alberta, particularly to changing toll and local revenues and toll and local costs and the inter- relationships thereof.

5. THE COST APPROACH

(a) INTRODUCTION

At pages 95R and 96 of Exhibit 57, after mentioning a number of "available and potentially applicable alternative plans to settle toll revenue sharing" (including the AAB and the CRT) AGT stated,

> "Another alternative would be the development of a new plan specifically designed to incorporate the First and Second Principles and employ appropriate telecommunications costing methodology applicable in the Alberta context.

"In concept, a new plan of the type identified could be expressed by the following formula:

Revenue generated in the City
Minus payments to carriers outside Alberta
Minus causal toll costs of AGT and 'et'
Minus revenue required to finance non-self-supporting services
Equals revenue available for sharing based on usage.

"The remaining revenue would then be shared in accordance with a formula that reflects the relative usage of the AGT and 'et' systems.

"The logic in such a plan commends it since it is tied directly to the Principles of the Memorandum of Understanding. However, the determination of AGT's and 'et's causal costs associated with the carriage of calls generated in Edmonton, and the subsidy required to finance non-self-supporting services would present a substantial cost allocation problem, and therefore such a plan may not be practical at this time. It can, however, be used by the Committee as a model to evaluate other plans that may be a reasonable surrogate".

The concept, of what I will call the Cost Approach, appealed to me and I felt strongly that it should be seriously considered as an alternative formula to fully meet the requirements of the mandate of the Arbitration Committee. It seemed to me that such Approach would fully meet the literal interpretation of the mandate. My interest in the approach was intensified after reading what other informed persons have said about the desirability of a cost approach to the settlement of toll revenue sharing in Canada.

The Committee of Inquiry in the Prince Rupert case stated in its Report to the CRTC (page 45 of Appendix 5 to Exhibit 57),

"Entirely apart from the Prince Rupert dispute, this inquiry has amply supported the committee's view that the development of uniform accounting and separation procedures by regulatory authorities in Canada to be applied in inter-company settlements is long overdue" (Emphasis added).

In its Decision in the Prince Rupert case (Telecom Decision CRTC 79-21) following receipt of the Report of the Committee of Inquiry, the CRTC stated (at page 17),

"Having examined the relevant portions of the Committee's report and the comments from the parties, the Commission concludes that the development of a uniform Canadian cost separation methodology and a uniform system of accounts is appropriate for inter-company settlements, and it agrees with the committee's view that in order to implement a cost-based approach an appropriate methodology must be developed to allocate telephone plant investment and expenses between local and long distance uses. Such an approach would permit individual cost studies to be undertaken by the larger independents, while at the same time permitting an average settlement schedule to be developed, as in the United States, for potential application to all companies".

In its Order No. 3931, the Ontario Telephone Service Commission stated,

"The Commission is in full agreement with the conclusion of the CRTC that the development of a uniform Canadian cost separation methodology and a uniform system of accounts is appropriate for inter-company settlements and that the implementation of a cost-based approach requires the development of an appropriate methodology to allocate telephone plant investment and expenses between local and long distance use" (Exhibit 22, page 4).

In its Order No. 4125, the Ontario Telephone Service Commission stated,

"The dilemma is aggravated by the fact that the toll revenue settlement of most of the independent telephone systems in Ontario is based upon the Alternate Appendix "B" schedule (AAB). The Alternate Appendix "B" schedule is an inadequate method of dividing gross toll revenues between the independent telephone systems and Bell Canada. A more apt settlement would be one which is based upon the costs of providing toll service...

"The work completed by the Committee of Inquiry (in the Prince Rupert case) provided a reasonable and expedient approach to the problem of the appropriate division of toll revenues and in the opinion of the Commission is the best approach available until such time as a cost based methodology can be developed and implemented...

"It is important to note here that a cost based methodology for the division of toll revenues is still anticipated by the Commission, and that the uniform system of accounts developed by the Commission will aid in the development of a cost based toll settlement methodology. However, the Commission is concerned that the development of a cost based methodology not only results in a fair division of gross toll revenues but that any settlement plan not be too cumbersome or expensive for the independent telephone systems to implement. While the development of a cost based methodology which is both fair and relatively simple to administer is not an easy task, the Commission believes that it is a reasonable objective and one which can be achieved by all parties concerned" (Exhibit 22 page 4).

After the sudden death of Dr. Hu Harries on August 26, 1986, I was appointed by the Province of Alberta as a member of the Arbitration Committee effective September 10, 1986. At that time the public hearing portion of the subject proceedings had been completed and written Arguments of both parties had been filed. Reply argument was scheduled to be filed on October 16, 1986. Whereas, by agreement, the "Appointees" to the Arbitration Committee were free to consult with their respective "Appointors", again by agreement between the members of the Arbitration Committee, after October 16, 1986 there was to be no further contact between the "Appointors" and the respective Appointees. It was also agreed between the members of the Arbitration Committee that if I found it necessary to have further material put on the record of the proceedings that this could be done either by the Arbitration Committee issuing further information requests to the parties and/or by re-convening the hearing and directing further questions to the witnesses of the parties. I am of the opinion, which I expressed to the other members of the Arbitration Committee that if the Cost Formula or any other Formula (other than those advocated and fully examined by the parties in the proceedings, (namely the AAB and CRT) were developed or selected by the Arbitration Committee, then such formula should be presented to the parties for their response before the final decision of the Arbitration Committee was made. The hearing stage, the evidentiary stage, the argument stage, and the deliberative stage of the subject

proceedings are not finally complete until such time as the Arbitration Committee reaches its final decision and issues its Report as required by the mandate of the Arbitration Committee. The procedures of the Arbitration Committee are, in the final analysis to be set solely by the Arbitration Committee as it thinks best.

Prior to October 16, 1986, I had the opportunity of discussing with AGT and the Province of Alberta (my "Appointor") the merits of a Cost Approach and the material on the record (including numbers) which would be necessary in the application of such an approach. Just prior to October 16, 1986 I received (at my request) from Mr. J.E. Fyles (one of AGT's witnesses) a 9-page memorandum on a Cost Approach including numbers. I did not have the time to discuss Mr. Fyles' memorandum with him or anyone in AGT before October 16, 1986, after which I was unable to have contact with anyone in AGT or the Government of Alberta with respect to the subject proceedings (as restricted by the agreement between the members of the Arbitration Committee).

I then set about to attempt to refine a Cost Approach and to find (if possible) the numbers on the record which would be necessary in the application of such an approach. I found on the record some numbers that could be used (at least on an interim basis pending the development by the parties of better numbers) particularly relating to AGT's operations; but many relating to 'et's operations were not on the record.

By letter dated December 2, 1986 and directed to AGT and 'et', I set out my concept of and the application thereof (including numbers) of a Cost Approach and requested their responses. A copy of my letter dated December 2, 1986 is attached hereto and marked Appendix "A". A copy of my concept of a Cost Approach titled "Cost Approach - The Concept" is attached hereto and marked Appendix "B". A copy of my application of the Cost Approach titled "Cost Approach - 2 Way Split (Toll & Local) - Based on Alta 92" is attached hereto and marked Appendix "C". A copy of Mr. Fyles' memorandum on a Cost Approach and titled "New Settlement Plan" is attached hereto and marked Appendix "D". Appendix "D" is attached only for the purpose of showing the development of certain numbers that I have used in Appendix "C".

Each of AGT and 'et' responded separately to my request of December 2 by written responses, each dated December 19, 1986. By agreement with the Arbitration Committee each of AGT and 'et' replied to the response of the other, each dated January 9, 1987.

I am very disappointed in the responses to my request, particularly with the lack of better numbers which I feel 'et' could provide. I am disappointed that AGT and 'et' did not co-operate and work together in the development of better numbers, primarily those relating to 'et'. I am convinced that through the cooperation of both AGT and 'et' that some better numbers (better in terms of the concept of the Cost Approach) are now available and a better methodology for the allocation of costs between toll and local could be readily developed over a reasonable time at a reasonable cost for future use. In the meantime (until a better methodology for the allocation of costs has been determined by the parties and approved by the STT) the method of allocation used in Appendix "C" would be used in the application of the Cost Approach. I am satisfied that even with better numbers, following a better methodology for allocating costs between toll and local, that the resulting share of toll revenues generated in Edmonton between 'et' and AGT (based on 1984 data) would not be materially different from that shown in Appendix "C".

With respect to 'et's response (dated December 19) to my request (dated December 2), I agree with the statement made by AGT on page 49 of its Reply to 'et' dated January 9, 1987, as follows,

"Alta believes that the City, wanting to avoid the clear merit of the Cost Approach in favour of the arbitrary and inequitable high revenue producing AAB, has been unresponsive to the interrogatory asked by Mr. Archibald. Rather than responding to the specific questions, 'et' has chosen to take the opportunity to make unsupported claims of harm without backing them up with better alternatives or data and in the end analysis to merely summarize its entire case one more time".

With respect to 'et's reply (dated January 9, 1987) to AGT's response to my request, I am not at all satisfied with 'et's "proper methodology" and "correct calculations" set out on pages 44-48 and Table 3 thereof. The methodology and calculations and resulting numbers set out in my request of December 2, 1986 (Appendix "C" attached hereto) are, in my opinion, much better than those provided by 'et', in terms of compliance with the concept of the Cost Approach set out in Appendix "B" attached hereto. I do not think that I would get any further help from the parties by issuing further information requests or re-convening the public hearing in relation to a better methodology or better numbers for the Cost Approach without the full, sincere co-operation of both AGT and 'et'.

I will now make further comment on the Cost Approach as set out in Appendices "B" and "C" attached hereto.

(b) THE COST APPROACH

(i) THE CONCEPT OF THE COST APPROACH

With respect to paragraph 1. of Appendix "B" attached hereto, I would amend the same so that it would read,

"Start with all Toll Revenues that are received and retained in Alberta from toll calls that originate and terminate in the City of Edmonton - net of settlement with carriers outside of Alberta and net of billing and collection costs and bad debt write-offs with respect to those toll calls."

This may not change the meaning of paragraph 1 of Appendix "B" but I want to make it clear that settlements with Telecom Canada includes settlements with adjacent provinces and territories east and west and north of Alberta.

The inclusion of revenues derived from toll calls which terminate in the City of Edmonton is not "inadvertent" as suggested by AGT, although I agree that the number I used of $142,005,000 probably is not the correct toll revenue number to fit my definition. The correct number should be available or be able to be made readily available in the future.

I agree with the Argument of 'et' that "toll revenues generated in the City of Edmonton" would, on a literal interpretation of those words, include toll revenues generated from toll calls which terminate as well as originate in the City of Edmonton.

Further, it seems to me that it would not be "fair and equitable to all Albertans", including of course Edmontonians, if the revenues from the toll calls terminating in Edmonton are not shared on an equitable basis with 'et'. After all 'et's telephone plant and facilities are used and costs are incurred by 'et' in completing toll calls that terminate in Edmonton as well as for those that originate in Edmonton.

It is my understanding that AGT receives the full amount of the revenues from toll calls that originate and terminate in Alberta (they are not shared with carriers outside of Alberta); that AGT receives a smaller portion of the revenues from toll calls that originate outside Alberta but terminate in Alberta (after settlement with carriers outside Alberta) including those terminating in Edmonton; that AGT retains a larger portion of the revenues from toll calls that originate in Alberta, including those in Edmonton, but terminate outside Alberta (after settlement with carriers outside Alberta). The revenues which AGT receives and retains from toll calls originating and terminating in its service area are (in effect) shared amongst its subscribers so that in order for there to be "fair and equitable treatment for all Albertans" then the revenues from toll calls which terminate as well as originate in the City of Edmonton must be shared between AGT and 'et'. The sharing, of course, must provide fair and equitable treatment for all Albertans and must meet the other requirements of the mandate of the Arbitration Committee.

I agree with 'et' that for purposes of the "toll sharing formula for the sharing of toll revenues generated in the City of Edmonton" toll revenues should include the revenues derived from the provision of telephone services which extend beyond the boundaries of the City of Edmonton, providing that such telephone services use the telephone plant and facilities of 'et'. The toll sharing formula applies only to toll revenues generated in the City of Edmonton. Other services which do not generate toll revenues in the City of Edmonton and which require the use of the plant and facilities of both AGT and 'et' would be the subject of a separate agreement or agreements between AGT and 'et'. There may be good arguments why all competitive telephone services (both competitive network and competitive terminal) should be excluded from any toll sharing formula. However, it is obvious from Alta 92 that currently (at least in AGT's service area) profits from the competitive services are necessary to help provide a subsidy to local service as profits from basic toll are not sufficient to cover the total subsidy requirement of basic local. In fact I considered a "3 way split" of revenues and costs (toll, local and competitive) for purposes of a cost approach to the sharing of toll revenues and the sharing of the subsidy requirement for local and discarded it for the above reason; and further, because I see no reason for not including competitive services for purposes of the toll sharing formula.

I agree with AGT in its response to Appendix "A" that in conjunction with the cost approach 'et' be required for ongoing settlements to conduct a "Contribution Test" to demonstrate that competitive services are earning a positive return and not themselves required to be subsidized (as is required of AGT by the Public Utilities Board). It may be that sometime in the future local service of AGT and 'et' would not require any subsidy from competitive services, in which case competitive services could be excluded from the toll sharing formula.

Bad debt write-offs (including billing and collection costs) should be excluded from the toll sharing formula. Under the Memorandum of Understanding and the Terms of Reference, the billing and collection of toll revenues generated in Edmonton and bad debts with respect to the same are to be subject to a separate agreement between AGT and 'et' under which 'et' would be responsible for the billing and collection and bad debts for an agreed upon payment by AGT (subject to the approval of the STT). Therefore the matter of the billing, collection and related bad debts with respect to toll revenues generated in Edmonton are not within the jurisdiction of the Arbitration Committee. The revenues with respect to bad debts and the costs of bad debts (including billing and collection) should be excluded from the toll sharing formula developed or selected by the Arbitration Committee.

With respect to paragraph 2 of Appendix "B" it is important to use the same cost allocation methodology for each of AGT and 'et' to determine the toll costs and local costs of each. As mentioned above, the costs of billing, collection and related bad debts with

respect to revenues generated in the City of Edmonton should be excluded from costs in the Cost Approach as they are subject to a separate agreement between AGT and 'et' and are not within the jurisdiction of the Arbitration Committee.

It is my understanding that 'et's system of accounts is now pretty well uniform with that of AGT. To the extent that they vary (at least with respect to the items relating to the requirements of the Cost Approach) then they should be made uniform. With respect to a uniform system of accounts, it is my opinion that the Public Utilities Board does now have the authority to prescribe a system of accounts for 'et' under Section 94 of the Public Utilities Board Act; and this, notwithstanding Section 70(2) of the Public Utilities Board Act.

Once they have a uniform system of accounts and a better method of allocation of costs between toll and local has been developed, then the year-end financial statement presentation (which is required each year in any case) can be prepared in a way to directly provide the data required by the Cost Approach. For on-going settlements each year, the application of the Cost Approach would be easily done without additional cost by simply referring to the annual financial statements of 'et' and AGT. I am convinced that if both parties are sincere and co-operate together, that a uniform system of accounts (for purposes of the Cost Approach) and a better method of allocation of costs between toll and local (for purposes of the Cost Approach) can be developed in a reasonable time frame and at a reasonable cost. The Arbitration Committee is required, by its mandate, to develop or select a toll sharing formula to be used into the unforeseeable future for sharing toll revenues generated in Edmonton that currently amount to some $150,000,000 in one year. Surely it is worth the time and the effort and the expense to develop or select a formula that will last into the future, and that is fair and equitable to all Albertans, and that meets the other requirements of the mandate of the Arbitration Committee, and that will continue to do so into the future.

The method of allocation of costs between toll and local (for purposes of the Cost Approach) should be done in a manner to reflect the definition of toll costs set out in paragraph 2 of Appendix "B" namely,

> "Toll costs defined as the costs of toll service with proper overhead loading but without any loading for costs which would be incurred in any event for providing local service. There should not be any element of "return on equity" or "profit" with respect to those costs (as any "return" or "profit" on toll service in Edmonton will be shared between AGT and 'et', after the toll costs and subsidy costs have been paid out of the toll revenues generated in Edmonton)".

It is important to remember that all revenues and costs (both with respect to AGT and 'et') which are not assigned or allocated to toll would be treated as local (for purposes of the Cost Approach) and further, that all revenues and costs are either toll or local.

It is important to remember that the question of what constitutes toll services and therefore toll revenues and toll costs is not that sensitive with respect to the Cost Approach because what is not toll is local and both AGT and 'et' get their costs of toll and their subsidy requirement (which is determined by local costs and revenues) before sharing in the balance of toll revenues generated in Edmonton. In a sense it is "self-balancing".

With respect to paragraph 3 of Appendix "B" the equalization or adjustments made to 'et's local revenues and local costs is necessary, in my opinion, to provide a result that is fair and equitable to all Albertans. Both adjustments relate to items (rates and revenue tax)

that are outside of the actual telephone operations of 'et' in that they are fixed and determined by the City of Edmonton. If the City of Edmonton were to fix such items at a level that varies considerably from those in AGT's service area then (without adjustment) the result would not be fair and equitable to all Albertans.

I am not so concerned with items in AGT's operations as such items must be reviewed by the Public Utilities Board and found to be prudently incurred and reasonable in amount and the resulting rates must be just and reasonable and not unjustly discriminatory or unduly preferential.

There may, in the future, be other cost items of 'et' that needs to be reviewed and adjusted in order to provide fair and equitable treatment to all Albertans. I agree with AGT that if a dispute arises between AGT and 'et' with respect to the equalization or adjustment of other cost items, such dispute can be arbitrated by the STT.

It is important to remember that basic toll rates for the whole of the Province of Alberta (including Edmonton) are set by AGT (under regulation by the Public Utilities Board). Such rates must, pursuant to the provisions of the Public Utilities Board Act be just and reasonable and not unjustly discriminatory or unduly preferential for the whole of the Province of Alberta (including Edmonton).

With respect to paragraph 4 of Appendix "B", the balance of toll revenues generated in Edmonton must be shared on a basis which provides fair and equitable treatment for all Albertans. It seems to me that the provision of toll services to 'et's subscribers can only be effected by the joint participation of AGT and 'et' and, therefore, is in the nature of a "joint-operation". In such a joint-operation, after each party has recovered its costs (including its share of the subsidy requirement), then the balance should be shared on some equitable basis. I suggest the sharing of the balance set out in Appendix "C" attached hereto would be fair and equitable to all Albertans.

The balance of Appendix "B" is self-explanatory and needs no further comment.

(ii) APPLICATION OF THE COST APPROACH

The application of the Cost Approach which I have done is set out in Appendix "C" attached hereto and is, I suggest, self-explanatory.

It may well be that a better method for the allocation of telephone costs between toll and local (in order to better fit the definition of toll costs set out in Appendix "B") can be developed by AGT and 'et' (at least on a final basis) and it is my hope that this would be done. Certainly the numbers or data used in Appendix "C" can be improved upon in terms of accuracy, particularly after a better method of allocation of costs is developed. Some of the numbers in Appendix "C" are obviously inaccurate such as the starting point of toll revenues generated in Edmonton (considering my definition of toll revenues) and certain revenues and costs of 'et' that are not available on the record; however I am convinced that at least some of these can be now obtained from the record of accounts of 'et' and others obtained after an allocation of costs methodology is applied. Some more accurate numbers were provided by AGT and 'et' in their responses of December 19, 1986 to Appendix "A".

I am satisfied that the methodology and numbers set out in Appendix "B" are sufficiently accurate for use on an interim basis until a better method of cost allocation has been developed by the parties and approved by the STT.

I do not agree with AGT with respect to its calculation of 'et's subsidy requirement (found in AGT's response of December 19, 1986 to Appendix "A" at page 10). AGT has netted off 'et's toll profit against 'et's "gross" subsidy requirement but has not done so to determine AGT's subsidy requirement. The subsidy requirement for each of AGT and 'et' should be the "gross" subsidy requirement.

The jurisdiction of the Arbitration Committee extends only to the matter of developing or selecting a toll sharing formula for the sharing of toll revenues generated in the City of Edmonton. All other matters relating to the telephone business between AGT and 'et' are to be settled outside of the toll sharing formula with any disputes with respect thereto to be arbitrated by the STT. Any disputes relating to the interpretation and/or application of the Cost Approach can be settled by the STT, including any dispute on the method of cost allocation or assignment and any equalization or adjustment to 'et's revenues and costs. Some cost items of 'et' if not prudently incurred, may be disallowed (by the STT) as a cost for purposes of the toll sharing formula. Other cost items may be reduced in amount (if found by the STT to be not reasonable in amount) for purposes of the toll sharing formula. Other cost items may be amortized over a period of years (by the STT) for purposes of the toll sharing formula; for instance an extraordinary item such as a too fast of write-off or write down with respect to depreciation.

'et' and the majority decision have dealt at length with the question of whether the CRT and the Cost Approach would (in their application) interfere with the management prerogative of 'et'. It is my opinion that the equalization and adjustments of 'et's revenues and costs as required by both the CRT and the Cost Approach (which would be subject to the approval of the STT) would in no way interfere with the management prerogatives of 'et'. Those equalizations and adjustments are made solely for the purpose of determining a fair and equitable sharing of toll revenue and for no other purpose. 'et' can manage its affairs and operations in the manner it sees fit.

I will make no further comment here to the application of the Cost Approach but would refer any interested reader to Appendices "A", "B", "C" and "D" attached hereto and to the responses of each of AGT and 'et' of December 19, 1986 and January 9, 1987.

No useful purpose would be served here in addressing in detail the responses of each of AGT and 'et' of December 19, 1986 and January 9, 1987 considering that this is only a dissenting opinion and it is the majority decision that is binding on the parties.

6. EVALUATION OF THE COST APPROACH

There are, of course, many other designs or forms (including the application of same) that a Cost Approach could take. However, it is my opinion that the Cost Approach detailed herein is designed and would produce a result that meets all of the requirements of the mandate of the Arbitration Committee as it is tied directly to all such requirements.

The Cost Approach is superior to the CRT in that it is directly based on the telephone revenues and costs (toll and local) that are experienced by the telephone companies in Alberta. It directly focuses on the sharing of toll revenues generated in the City of Edmonton including the sharing of the specific obligation of AGT and 'et' to "provide funds to finance telephone services which are not self-supporting".

It fully meets the requirements of the primary or principal governing principle of the mandate of the Arbitration Committee in that its application will provide and will appear to provide fair and equitable treatment for all Albertans with respect to the sharing of toll

revenues generated in the City of Edmonton, including the sharing of the obligation to provide funds to finance telephone services in Alberta which are not self-supporting; and (because it automatically adjusts to changing conditions in the future of revenues and costs and revenue/cost relationships of AGT and 'et') it will continue to do so into the future. In this respect it is superior to the CRT and far superior to the AAB and Modified AAB.

The Cost Approach is practical in that it is not only theoretically correct or ideal but it will work in real life. It is true that a better methodology for the allocation of revenues and costs between toll and local (and later perhaps competitive telephone services) from that set out herein should be developed; but once developed the Cost Approach could be easily and readily applied without an undue amount of cost or complications. The development of a better methodology for the allocation of revenues and costs between toll and local would be well worth the co-operative time and effort and expense particularly considering the large amount of money to be shared over the unforeseeable future. In the meantime, until such better allocation methodology has been developed, the allocation methodology set out herein can be used. In any case, the development of the allocation methodology would probably involve a process of improvements over time. The STT can arbitrate any disputes over such improvements and resulting changes to the allocation methodology. Considering the amount and degree of controversy between AGT and 'et' in the subject proceedings, it is apparent to me that the STT will be involved, in any case, in arbitrating many disputes into the future between AGT and 'et'.

The Cost Approach is practical in that, being based on or reflective of costs and revenues, it "dove-tails" well with the provisions of the Public Utilities Board Act and other provincial legislation applicable to AGT and/or 'et'. It is not inconsistent with the provisions of such legislation.

The Cost Approach is practical in that it is logical in basis; free from controversies of interpretation; predictable and stable with respect to revenue shares derived; flexible and adaptable in its ability to meet changing conditions; and, understandable and auditable.

As to being practical (in the wide sense) it is superior to the CRT and far superior to the AAB and the Modified AAB.

The Cost Approach is "based on usage" as shown in paragraph 1.(b)(i) above and in Appendix "C" attached hereto.

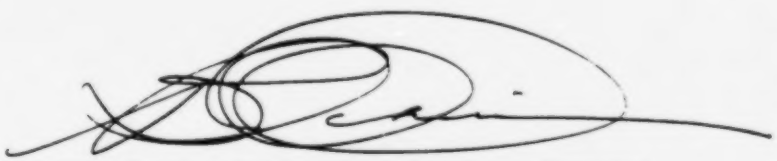
The Cost Approach squarely meets the requirement that AGT and 'et' accept the obligation to provide funds to finance telephone services which are not self-supporting. It does so "in a manner which provides fair and equitable treatment for all Albertans". In this respect it is superior to the CRT and far superior to the AAB and Modified AAB. The AAB fails miserably in meeting this requirement; it doesn't even address the requirement as it relates to the Province of Alberta.

The sharing formula developed or selected by the Arbitration Committee is to be applied by the Arbitration Committee to the first three months of 1985 and "the two companies will thereafter use the formula for ongoing toll settlements". The Cost Approach fully meets all of the requirements of the mandate of the Arbitration Committee and will continue to do so into the unforeseeable future for "ongoing toll settlements" as it automatically provides for flexibility and adaptability in its ability to meet changing conditions, particularly with respect to changing costs and revenues and the changing relationships thereof. The AAB and Modified AAB do not and would not do so into the future.

7. CONCLUSION

For purposes of meeting the requirements of the mandate of the Arbitration Committee, I would use the Cost Approach as described herein (and in Appendices "B", "C" and "D" attached hereto) including the cost allocation methodology and the numbers set out. I would direct AGT and 'et' to set about to jointly develop a better method of allocation of costs between toll and local (based on my definition of toll costs set out in paragraph 2 of Appendix "B" attached hereto) which upon application of either AGT or 'et' could be approved by the STT in the use of the Cost Approach for future settlements. The STT could arbitrate any other disputes pertaining to the application or interpretation of the Cost Approach including any equalization or adjustments (for purposes only of the toll sharing formula) of 'et's actual revenues and costs. I would require 'et' to do a "Contribution Test" each year.

With respect to 'et's claim for "interest", although it may be only fair that 'et' be paid interest (as set out in the majority Decision of the Arbitration Committee) I would not direct that interest be paid because there is no such authority contained in the mandate of the Arbitration Committee and the Arbitration Committee has, in my opinion, only the authority that is specifically spelled out in the mandate of the Arbitration Committee.



BLAINE ARCHIBALD - DISSENTING MEMBER

Dated at Edmonton, Alberta, this 27th day of February, A.D. 1987

SECTION X

CRITIQUE OF THE COST APPROACH ADOPTED BY BLAINE ARCHIBALD

In attempting to make an assessment, at this point in time, of the Cost Approach formula enunciated by our colleague Mr. Archibald in the form of a minority opinion to the majority decision of this Committee, the majority members first wish to make a general observation. We do not dismiss the cost approach concept outright for there is much to be said in favour of some viable system where each party recovers its direct toll related costs from toll revenues before deciding whether to reduce toll rates to the point where there is no other toll revenue to divide (as advocated by the expert witness Zielinski) or to divide any surplus resulting from toll revenues, after costs are recovered, on some sharing formula. The difficulties which the majority finds in taking Mr. Archibald's Cost Approach at this point and translating it into a working formula within the framework of the Committee's mandate and time frame fall in the following areas:

(a) In our view there does not now exist any universally accepted cost allocation method which could be used by the Committee and the parties as part of a formula. We do not think this is only our personal observations. In our opinion this view was clearly expressed in the written submissions and on the record by several experts, including those called by AGT. For example at page 96 of the Province's main argument the following comment appears:

> "However, the determination of AGT's and 'et's casual costs associated with the carriage of calls generated in Edmonton, and the subsidy required to finance non-self-supporting services would present a substantial cost allocation problem, and therefore such a plan not be practical at this time. It can, however, be used by the Committee as a model to evaluate other plans that may be a reasonable surrogate.

The plans have been assessed and we have concluded that only the RSP, the AAB and the CRT formulas are worthy of further analysis ..." (emphasis added)

Mr. Fyles, the Province's main expert, makes the following statement, referring to a cost based formula, in his Evidence-in-Chief at page 1924 of the transcript:

> "If such a plan, based on costs and usage and recognizing the subsidy requirement is impractical, because of the problems associated with the identification of AGT's and 'et's' costs, associated with the carriage of calls originating in Edmonton and the determination of the required subsidy, then it is necessary to adopt another plan." (emphasis added)

In its final Argument dated August 8, 1986 the Province makes the following statement:

> "The only formula recommended for selection by the parties to the Arbitration Committee are the AAB and CRT. The Arbitration Committee may select one or both in a modified or immodified form, or it may develop its own formula.

There is substantial agreement that a cost based formula consistent with usage is regarded by the authority and most of the witnesses as being the most prudent settlement solution. Absent the necessary methodology studies and data to develop such a formula, the Arbitration Committee must return to the selection - the best method for selection is the CRT."

Mr. Zielinski in his written submission says at pages 30-31:

"If it were possible, I would recommend that the Arbitration Committee adopt an efficient, cost-based method for toll settlements in this proceeding that would carefully target subsidies generated by toll usage charges. But this would require a detailed study of subscriber loop and other costs throughout the province. I understand such study cannot be performed at this time, and thus, an existing toll settlement methodology must be used."

While the CRTC has not directly commented upon the difficulties in Canada of applying a cost approach, it has done so indirectly by accepting the report of the Committee of Inquiry which was set up in 1977 to report on the toll sharing dispute between the B.C. Telephone Company and the City of Prince Rupert.

At page 45 of the Committee of Inquiry's decision it made the following comments:

"Unfortunately, there is no basis at present upon which a particular company can do an 'individual cost study' in Canada to establish whether it departs from the norm. As noted in the C.I.T.A. submission, there is no uniform system of accounts applied by federally and provincially regulated telephone systems in Canada. And more important, the NARUC-FCC separations procedures, while indirectly utilized in creating the "A" Commission schedule in the first place, are not at present applied by any telephone company in Canada. Entirely apart from the Prince Rupert dispute, this inquiry has amply supported the committee's view that the development of uniform accounting and separation procedures by regulatory authorities in Canada to be applied in inter-company settlements is long overdue."

(b) The cost approach accepted by Mr. Archibald has not been subjected to the thorough and searching cross-examination given to the CRT and AAB approaches. This, of course, is not the fault of its proponent but it is a fact facing the Committee. Neither Mr. Archibald, AGT or 'et' have requested that the Committee re-open its public hearing process and explore all of the ramifications of the Archibald Cost Approach formula. They have said the following:

Mr. Archibald at page 42 stated:

"I do not think that I would get any further help from the parties by issuing further information requests or re-convening the public hearing in relation to a better methodology or better numbers for the Cost Approach without the full, sincere co-operation of both AGT and 'et'."

AGT says at page 3 of its submission dated December 19, 1986:

> "It is ALTA's sincere and strongly felt hope that this response, together with the City's response and the replies of each will provide the Committee with sufficient information on the views of the parties on principles and as to available data to conclude its decision without further public proceedings and within a reasonable time."

'et' says at page 1 of its Reply dated December 19, 1986:

> "The City has attempted to assess the BAF in order to respond to the concept itself and the practicality of proceeding further with it. An attempt was also made to assess the BAF using the issues posed by the Committee. The BAF is complex and difficult to calculate. Consequently, 'edmonton telephones' has not, in the time available, been able to do more than identify some of the problems with the formula itself and with its application. The BAF does not represent a compromise position between the Alternate Appendix 'B' and the Comparative Requirements Test, and therefore must necessarily be presented by one party as the preferred alternative over the formula submitted by the other party. This would not be accomplished without restructuring the arbitration and recommencing the process. The Arbitration Committee should not restructure or recommence this arbitration by giving further consideration to the BAF."

It is also a fact that the Memorandum of Understanding and the Terms of Reference clearly state that the Committee was to present its report within six months following the date of the appointment of the Chairman. The Chairman was appointed on the 4th day of December, 1985 and the six month original date would have expired on the 4th day of June, 1986. While it is true that both parties have mutually agreed to extend the decision date on several occasions when the public hearings were still in progress, or written argument was being prepared, the death of Dr. Harries and the need to allow Mr. Archibald time to acquire a knowledge of the record presented themselves. The last extension requested and granted is to January 31, 1987. A re-opening of the process to give the parties the same opportunity of examining the Archibald Cost Approach would undoubtedly take several months to conclude. We are loath to ask the parties to extend our mandate for this length of time when there appears to be little enthusiasm amongst them to do so.

There is further difficulty in proceeding to examine the proposed cost approach formula. As mentioned in the opening paragraphs to this decision, by the agreement of both parties, the hearings proceeded in an adversarial approach fashion. Each of the parties, after carefully reviewing and rejecting alternative known forms of toll revenue sharing, promoted the CRT, in the case of AGT, and the AAB, in the case of 'et'. According to the submissions filed by both parties in response to Archibald's Cost Approach formula, neither of the parties wishes to abandon its proposed formula and replace it by the Archibald Cost Approach formula. If this be the case who would propound the cost approach formula, lead evidence, introduce experts and conduct cross-examinations? It would seem unfair to place this burden upon either AGT or 'et' when they do not accept the proposed formula as their first choice. To expect a member of the Committee to take up this role would leave that member in a very difficult and awkward position as an arbitrator.

In the absence of this kind of examination and, in particular, the lack of evidence to test the sensitivity of the cost approach formula to change in the future makes it very difficult,

in the opinion of the majority, to use it as the formula by which the parties have to operate under at this point in time and for the foreseeable future.

(c) The Archibald Cost Approach recognizes the need to develop a new method of cost allocation. Mr. Archibald, in setting out his cost approach states at page 40:

> "I am disappointed that AGT and 'et' did not co-operate and work together in the development of better numbers, primarily those related to 'et'. I am convinced that through the co-operation of both AGT and 'et' that some better numbers (better in terms of the concept of the Cost Approach) are now available and a better methodology for the allocation of costs between toll and local could be readily developed over a reasonable time at a reasonable cost for future use. In the meantime (until better methodology for the allocation of costs has been determined by the parties and approved by the STT) the method of allocation used in Appendix "C" would be used in the application of the Cost Approach."

It is the opinion of the majority that this statement recognizes the need to develop a whole new approach agreement between AGT and 'et' to cost allocation. Given the past track record of the parties, we think it is realistic to forecast that this process, even with the help of the STT, would be a lengthy and tortuous exercise. In the meantime the parties would be left using figures which Mr. Archibald himself agrees are inadequate at best. While we think a mutually agreeable costing method is still a worthwhile long-term goal for the parties to work towards, and would urge them to do so, it is the majority opinion that the Committee would not be fulfilling its mandate of giving the parties to this arbitration a formula to govern their present and near term future operations that leaves so much up in the air to be decided by agreement or, failing agreement, by the STT. We think this will only result in a long, costly period of expensive proceedings to decide what this Committee was set up to decide. An adoption of the Archibald Cost Approach formula with its recognized present limitations, will not resolve the issues. In our respectful opinion it will only postpone their resolution.

(d) It is the opinion of the majority that there are several conceptual and technical problems inherent in the Archibald Cost Approach formula as presently enunciated. We have already acknowledged that the perfect formula has not yet been developed by people in the industry who possess far more experience and expertise than we do. This has resulted in the industry's use from time to time of several different formulae, all of which have certain flaws and shortcomings, that have been pointed out by both sides during the course of this arbitration.

We do not intend here to present a detailed analysis of the problems which we perceive associated with the cost approach formula for we doubt that we possess the background and technical expertise to accomplish this. We think it sufficient to state that the various areas of concern that were set out in the City's Response dated December 19, 1986 and its Reply dated January 7, 1987 raise enough points of serious concern to make us very uneasy about adopting this approach with the information at hand.

It is for these reasons that the majority of the Committee have decided not to adopt the Archibald Cost Approach for the purposes of this report. We would be remiss if we did not commend our colleague for his effort to seek a workable cost formula, but we are concerned that too much more preparation work needs to be done in an Alberta context before we can recommend this approach to be binding upon AGT and 'et'.

SECTION XI

CONCLUDING OBSERVATIONS

Before all of the members of the Arbitration Committee complete this report, we would want to express our deep appreciation to many people who have been of great assistance to the Committee and without whom it would have been almost impossible to produce the report.

Because of the technical nature of much of the evidence that was brought before the Committee we had to rely heavily upon the expertise of many of the witnesses. The Committee wishes to express its thanks to all of the experts who produced both written and oral testimony but we particularly wish to single out the contributions of Mr. J.E. Fyles of AGT and Mr. B. Baptie of 'et' who were the main sources of expert evidence and who continued to provide assistance after the public hearing phase of the process was finalized.

We must also express our gratitude to and admiration for the quality of the work done by counsel for the Province, Mr. Rooke and Mr. McIntyre and counsel for the City, Mr. Drewry and Mr. Pratt. As the entire process was conducted in an adversarial format we became convinced that both sides of every issue were carefully canvassed and explored and it did not become necessary for the Committee to call any additional evidence on all of the points raised.

It goes without saying that the hearing part of the Committee's process does not function as smoothly as it did without the public and behind the scene efforts of many people. We would like to recognize the superb service provided by the Official Court Reporters in making available accurate daily transcripts containing large amounts of technical terminology. We also express our thanks to many members of the staff of the Law Courts Building for providing the physical accommodation and to the secretaries of the Court of Queen's Bench who assisted on occasions too numerous to mention.

We must also mention the co-operation throughout of members of the media who kept the public informed of our proceedings.

We would also like to express our deep appreciation to the staff of J.G. Moore and Associates Ltd. for their assistance and attention in preparing the final report for the Comiittee.

Lastly, but certainly not least, the members of the Committee wish to acknowledge with grateful appreciation the untiring efforts of our Executive Assistant, Mr. S.M. Barnett. His background and experience with this type of proceeding has proved to be invaluable.

Tevie H. Miller
Chairman

Charles M. Dalfen
Member

DATED at Edmonton, Alberta
February 28, 1987

APPENDICES

GLOSSARY

This glossary does not purport to cover the multitude of technical phrases and acronyms used in the telecommunications industry. It is simply a listing of such phrases and acronyms as appear in the foregoing Decision of the Arbitration Committee.

A

AAB - Alternate Appendix "B", the designation of a sharing formula used by Bell Canada for the division of toll revenues

AC - Arbitration Committee

AGT - Alberta Government Telephones

ANI - Automatic Number Identification, automatic equipment located in the local central office used on subscriber-dialed long distance calls to identify the calling station and transmit its identity to the toll centre for billing purposes

ARPM - Average Revenue per Message

AT&T - American Telephone and Telegraph Company

access line - a communication facility extending from a customer's premises to a serving central office. This includes PBX, key trunks, residential lines, etc.

B

basic service - telephone service without any additional equipment. Basic service is generally price regulated

BC Tel - British Columbia Telephone Company, an investor-owned telecommunication company operating in British Columbia

by-pass - the adoption by customers of telephone companies of toll methodologies which do not require the use of the PSTN

C

CAMA - Centralized Automatic Message Accounting, a switching service which provides for recording of particulars required for billing purposes

casual costs - costs which can be attributed to a particular segment of a telephone service

CRT - Comparative Requirements Test, a formula developed by the CRTC for the division of toll revenues between the City of Prince Rupert and BC Tel

C (Cont.)

CRTC - Canadian Radio-Television Telecommunications Com-Commission, the Federal regulator in telecommunication matters

common costs - costs of services necessary for both local and toll services

Commission - in the telecommunication usage, this refers to the amount paid per message by a toll company to an independent

competitive network - a network telecommunication service where there is more than one telecommunication supplier

G

G & A - General and Administrative, as applied to an expense item in the accounts of telephone companies

J

Joint Plant Costs - the costs of telephone facilities which are used for both local and toll service

L

Line Hall - payment associated with the costs of providing toll facilities from the local central office to the point of connection with the toll carrier, usually calculated on a mileage basis

E

'et' - 'edmonton telephones'

800 Service - a bulk rated service where a customer may receive calls on an 800 Service Access line from specified 800 Zones in Canada and the U.S.

EAS - Extended Area Service, the extension of a major exchange area to include other surrounding exchange areas, permitting toll-free dialing within the extended area in exchange for higher exchange rates

EFRC - Extended Flat Rate Calling, the name used in Alberta for EAS

I

ICA - Interconnecting Company Agreement, referring to the specific agreements between 'et' and AGT respecting services and facilities provided by 'et'

interrogatory - a formal written request by one party for specific information from the other party

intervenor - the status accorded by a tribunal to an entity who has a demonstrable interest, but is not a party to the cause

Interexchange Services - a wide variety of competitive inter-city voice and data services

INWATS - the same as 800 Service

L (Cont.)

Local Revenues - revenues of a telephone company derived from the provision of local service as opposed to toll service

local loop - that portion of a telephone system that connects the customer's premises to the local exchange

N

Non-basic Service - telephone service requiring additional facilities beyond a black telephone and an access line

900 Service - a bulk rated long distance service providing toll service from specified zones

P

private line - a circuit dedicated for the exclusive use of a subscriber providing a direct link between specified locations and not requiring switching arrangements

PSTN - the Public Switched Telephone Network

PUB - Public Utilities Board, the Provincial regulatory body which regulates AGT but does not regulate 'et'

The Public Utilities Board Act - the Provincial statute which governs the jurisdiction and activities of the PUB

M

Memorandum of Understanding - the agreement between the City of Edmonton and the Province of Alberta setting up the arbitration procedure

MTS - Message Toll Service, long distance service provided through use of the PSTN with billing based on length and distance of call; includes inter alia operator-assisted, person-to-person and direct distance dialed (DDD) calls

O

OUTWATS - Wide Area Telephone Service, allowing customers to place voice and data calls to locations in a designated zone, and bulk rated. (See also INWATS)

R

RAF - Rate Adjustment Factor, this is a factor incorporated in the AAB to ensure that the percentage retention rate of toll by an independent does not vary as a result of toll rate changes

rate base - those assets of a telecommunication company which are used or required to be used in the delivery of service

rate rebalancing - the systematic redirection of toll rates and the corresponding increases in local rates

rate of return - the percentage that the net profit bears to the rate base. In a regulated utility the rate of return is prescribed by the regulator

S

station - a telephone set or the end-use equipment terminating an access line

stand alone - refers to a telephone system operating independently of any other telephone system

STT - Special Telecommunication Tribunal, the body set up by Provincial Statute to deal with future disputes between 'et' and AGT

subsidy - the application of revenues exceeding costs to recover costs associated with non-profit-generating services

step-by-step - a type of switching equipment which is being phased out as improved switching equipment replaces it

U

WATS - Wide Area Telephone Service, a bulk-rated toll service. INWATS, a one-way incoming long distance service allowing customers to receive voice or data calls from outlying points within a designated zone at no charge to the originating caller

T

Telecom Canada - a consortium of telecommunication companies in Canada which divides toll revenues amongst its members by the RSP formula. AGT is a member of Telecom Canada

Terms of Reference - that part of the Memorandum of Understanding which defines the jurisdiction and mandate of the Arbitration Committee

terminal service - the services available at the end points of a telecommunications circuit

toll revenues - revenues of a telephone company derived from the provision of toll service as opposed to toll service

TWX - Teletypewriter Exchange Service, provided via a TWX switchboard allowing connection of subscriber's premise teletypewriters over a toll network. Provided in Alberta only by AGT

Z

ZENITH - a bulk-rated service which allows customers to receive and pay for calls placed through the operator and charged to a ZENITH number

DEC 5 1985
EXHIBIT 1
EDMONTON, ALBERTA

MEMORANDUM OF UNDERSTANDING

The undersigned, Alderman Ed Leger representing the Mayor and the Council of the City of Edmonton and Al Hiebert, M.L.A. and Chairman of the Edmonton Government Caucus representing the Minister of Utilities and Telecommunications and the Government of Alberta, are pleased to report that after a most thorough and detailed review of the problem of equitably sharing long distance toll revenue between 'edmonton telephones' and Alberta Government Telephones, they have agreed as follows:

1. The signatories to this Memorandum relating to a proposed settlement of outstanding issues between 'edmonton telephones' and Alberta Government Telephones have agreed to recommend the settlement package, as a package, to their respective principals, the Edmonton City Council and Alberta Government.

2. The Terms of Reference attached hereby and dated Wednesday, April 24, 1985 as signed by both parties to this Memorandum of Understanding shall constitute the recommended basis for achieving the settlement of issues between 'edmonton telephones' and Alberta Government Telephones.

3. The Terms of Reference consist of five basic areas:

   Arbitration Committee
   Special Telecommunications Tribunal
   Operations
   - interconnect
   - billing
   Litigation
   Legislation

4. An Arbitration Committee will be appointed by the City of Edmonton and the Province of Alberta for the purpose of settling the toll revenue sharing dispute as set out in the Terms of Reference. The process of the Committee shall be determined by the Committee and either party may make representations to the Committee in this regard.

/...2

5. The Edmonton City Council and the Alberta Government shall use their best efforts to ensure that 'edmonton telephones' and Alberta Government Telephones provide to the Arbitration Committee all information and documentation so that they may reasonably carry out their mandate.

6. The reasonable fees and expenses of the Arbitration Committee will be shared equally by the City of Edmonton and the Province of Alberta.

ALDERMAN E. LEGER

AL HIEBERT, M.L.A.

April 24, 1985
DATE

TERMS OF REFERENCE

A. LONG DISTANCE TOLL REVENUE SHARING

1. Arbitration Committee

a) Composition

- Three Members:

  i) one member to be appointed by the City
  ii) one member to be appointed by the Province
  iii) a Chairman chosen by the two members

- Chairman is to:

  i) preferably have at least 10 years experience in telecommunications and have some knowledge in the area of revenue sharing
  ii) not be an employee of either Alberta Government Telephones or 'edmonton telephones', the City or the Province
  iii) preferably be an Albertan who is considered impartial

- If the two members are unable to agree on the choice of a Chairman within 30 days, the choice will be made by the Provincial Ombudsman

b) Mandate

i) The Arbitration Committee will develop or select a practical toll sharing formula for the sharing of toll revenues generated in the City of Edmonton in a manner which provides fair and equitable treatment for all Albertans.

The Committee will be guided by the two Milvain Committee principles:

"(1) Telephone Companies are entitled to a share of the toll revenue generated based on usage, and

(2) In the case of Alberta telephone companies they accept the obligation to provide funds to finance telephone services which are not self-supporting"

The Arbitration Committee through the application of the formula shall determine the shared revenue for the initial three-month period of the agreement and the two companies will thereafter use the formula for ongoing toll settlements.

ii) The Committee's mandate will be restricted to settling the toll revenue sharing dispute.

iii) Any majority decision by the Arbitration Committee will be final and binding on both parties.

c) Time Line

i) The Committee is to be established within 30 days of both parties accepting the terms of reference.

ii) Toll revenue sharing to be calculated from January 1, 1985.

iii) The Committee shall report within 6 months of the appointment of the Chairman.

B. RESOLUTION OF FUTURE DISPUTES

1. Special Telecommunications Tribunal

a) Composition

- Five Members:

i) One member to be appointed by the City
ii) One member to be appointed by the Alberta Government Telephones Commission
iii) Three members to be selected by and from the Public Utilities Board

- Chairman will be from the Public Utilities Board Members
- All appointments will be for a five-year term

b) Mandate

- Deal with disputes between the two telephone companies but not regulate 'edmonton telephones'. Edmonton City Council will continue to set rates for 'edmonton telephones' subscribers. The Public Utilities Board will continue to set rates for Alberta Government Telephones subscribers. Existing management prerogatives are to be maintained

- The Tribunal will not decide on matters respecting the mandate of either Alberta Government Telephones or 'edmonton telephones'. The mandate of Alberta Government Telephones and 'edmonton telephones' is defined in provincial legislation.

- Proceed under the Public Utilities Board Act.

C. OPERATIONS

1. Interconnect

All customers in Edmonton will be treated the same as customers in the Alberta Government Telephones system with regard to interconnect of privately owned equipment.

All telephone subscribers in the City of Edmonton will have the right to acquire terminal equipment in the marketplace at the end of their contract or the three-year phase in period, whichever comes first.

Alberta Government Telephones, Alberta Government Departments and Agencies will maintain with 'edmonton telephones' their existing requirements of terminal equipment for a three-year period.

The three-year period will begin upon the date which these Terms of Reference are accepted by the City Council and the Provincial Government.

2. Billing

Within 90 days, Alberta Government Telephones and 'edmonton telephones' to enter into a three-year billing agreement whereby 'edmonton telephones' will bill all customers in Edmonton for basic long distance telephone services supplied by Alberta Government Telephones.

Alberta Government Telephones will provide to 'edmonton telephones' all necessary billing information on magnetic tape to allow 'edmonton telephones' to print details of long distance charges on bills to be produced by the City of Edmonton or 'edmonton telephones'.

'edmonton telephones' will also be provided with all necessary information to perform investigation of customer disputed charges. Under the billing arrangement, 'edmonton telephones' will be responsible for the collection and bad debts of Edmonton accounts from the time billing is taken over by 'edmonton telephones'.

The process of establishing this agreement should begin immediately upon the date these Terms of Reference are accepted.

Special Telecommunications Tribunal to review the billing procedure for its practicality and cost-effectiveness before a more permanent arrangement is implemented.

Edmonton alberta
24 april 1985

MR A HIEBERT
M.L.A.
CHAIRMAN
EDMONTON GOV.
CAUCUS

Dear Mr Hiebert.

this refers to the terms of reference which I am about to sign on the 24 april 1985 AD. and have agreed to recommend to the Council of the city of Edmonton.

I refer to page 2 E with reference to the claim, the mandate of provincial government telephone and Edmonton telephone is defined by provincial legislation.

it must be clearly understood that by accepting this clause in the recommendation the city of Edmonton or Edmonton telephone does not agree to relinquish any rights under Government of Canada jurisdict or authority

Yours Truly
E.H. Chafe
ALDerman
City of Edmonton

24 april 85
accepted by
MR AL Hiebert

25/4

ARBITRATION COMMITTEE

THE CITY OF EDMONTON - THE PROVINCE OF ALBERTA

SPECIFIC AGREEMENT WITH RESPECT TO MEMBERS OF THE ARBITRATION COMMITTEE

(a) Both Dr. Harries and Mr. Dalfen are free to deal with, represent and advise their respective nominators, or any other person, on all matters, including those matters before the Arbitration Committee, during the course of the arbitration and at any other time;

(b) Both Dr. Harries and Mr. Dalfen are free to be the nominee for either the City of Edmonton ("the City"), the Government of Alberta ("Alberta") or Alberta Government Telephones ("AGT") (collectively "the parties") in any concurrent or subsequent proceedings;

(c) Throughout the arbitration process and at all other times Dr. Harries and Mr. Dalfen are free to communicate with, consult with, provide research, advice, opinions and to otherwise assit in any way, directly or indirectly, the parties, or anyone else, in respect of any manner whatsoever, including matters which are in issue before the Arbitration Committee;

(d) The parties waive any right they have to object to any decision of the Committee or to ask that Dr. Harries or Mr. Dalfen be disqualified on the basis of interest or bias; and

(e) The arbitrators are neither disqualified nor is any decision of the Board objectionable because of any past, present or future involvement of any nature by Dr. Harries or Mr. Dalfen with the parties.

Exhibit 2

1 page

DEC 5 1985

EDMONTON, ALBERTA

ARBITRATION COMMITTEE

LIST OF ISSUES

1. Mandate of the Arbitration Committee

   1.1 What is meant by "toll revenues", and specifically, does it include interexchange, TWX, EAS/EFRC, and/or local exchange revenues?

   1.2 What is meant by the word "sharing", and specifically, may the Committee develop or select a formula that results in one party receiving a zero or minus share of toll revenues?

   1.3 What is meant by the words "generated within the City of Edmonton"?

   1.4 What is meant by a "practical" toll sharing formula?

   1.5 What is meant by "fair and equitable treatment for all Albertans"?

      1.5.1 Does it involve the maximization of toll revenues coming into Alberta?

      1.5.2 Does it call for a result that is consistent with other independent company settlements in Canada and the U.S.?

      1.5.3 In regard to changing circumstances in the Alberta telecommunications environment,

         a) what changes in the Alberta telecommunications environment are likely to have an impact upon the formula?

         b) to what extent should consideration be given to the ability of the formula selected to adapt to such changes?

      1.5.4 As regards the difference between the costs of operating AGT's telephone system in

Calgary on a stand-alone basis and AGT's local revenues in Calgary (the Difference)

a) to what extent should the Difference be considered in determining the City of Edmonton's share of toll revenues generated in Edmonton?

b) should a calculation of the Difference include:

(i) the expenses and revenues from Calgary terminal services?

(ii) the local costs of jointly providing toll service?

(iii) non-telecommunications revenues?

(iv) toll-related revenues?

(v) other considerations?

c) on the basis of detailed analyses of the Province's and the City's calculations, what is the Difference?

1.6 What does the first Milvain principle mean, and specifically, the term "usage"?

1.7 What does the second Milvain principle mean, and specifically, the phrases "to finance" and "telephone services which are not self-supporting?"

1.8 Does one of the two Milvain principles take precedence over the other or should the two be balanced by the Committee?

1.9 What other principles or criteria are dictated by the Committee's mandate?

2. The proposed formulae

2.0 The proposed formulae, description of the Alternate Appendix "B" (AAB) and the Comparative Requirements Test (CRT).

2.1 To what extent do the AAB and the CRT satisfy each of the requirements of the Arbitration Committee's mandate?

2.2 In applying the AAB and the CRT, to what extent should the Committee consider the relative efficiencies, accounting policies and practices, tax liabilities and the method of regulation of the two parties?

2.3 Based on item-by-item analyses of the Province's and the City's calculations, what would the toll revenue shares of the City and the Province be for the first quarter of 1985 under

a) the AAB and

b) the CRT?

2.4 To what extent would the resulting revenue shares be fair and equitable?

3. The special telecommunications tribunal

3.1 Does the term "dispute" mean the same thing in the Committee's Terms of Reference and in the Telecommunications Statute Amendment Act, 1985?

3.2 Does the special telecommunications tribunal have the authority to develop or select a different toll sharing formula than the one ordered by the Committee?

LISTING OF EXHIBITS

Exhibit Number	Nature of Exhibit
1	Memorandum of Understanding between the City of Edmonton and Government of Alberta dated April 24 1985, and the Terms of Reference of the Committee of the same date, and a hand writte letter of April 24 1985 from Alderman Ledger of the City of Edmonton Council to Mr A Hiebert, Chairman of the Edmonton Government Caucus.
2	Specific Agreement between Counsel for the Parties with respe to the Members of the Arbitration Committee.
3	Letter of November 18 1985 to the Chairman from Mr Pratt enclosing certified copy of the City of Edmonton Council resolution approving the appointment of the Chairman.
4	Report of the Joint Study Committee (the Milvain Committee) dated June 2 1983, 14 pages.
5	Letter of March 21 1986 from Mr Dale Hodges, Chairman of the C of Calgary Gas and Power Committee, to Mr H M Neldner, Presi of AGT, expressing Calgary's objections to the AAB and the CR methodologies.
6	The curriculum vitae of Barry A Baptie, witness for the City of Edmonton, as filed in Edmonton's main case.
7	The curriculum vitae of Roger O Peterson, witness for the Cit of Edmonton, as filed in Edmonton's main case.
8	Sections I to VIII and Sections C1 and C3 of Edmonton's main submission.
9	Two binders containing the exhibits filed before the Joint Study Committee (the Milvain Committee).
10	A reproduction in 8½" by 11" of the 20 charts used by Mr Bapt in his evidence commencing March 24 1986, and to be referred to as 10-1, 10-2, etc.
11	A group of 9 sources reflecting the definition and usage of the word "toll".
12	Section 8 of the Bell ICR Manual supplied in response to 'et'(ALTA)3Feb86 - 100R
13	Chart filed March 31 1986 in cross-examination of Baptie entitled "Edmonton Toll - EAS & EFRC Complex".

14	Chart filed in Baptie cross-examination entitled "Employees/100 Network Access Lines".
15	Chart filed in Baptie cross-examination entitled "Operating Expense/Network Access Line".
16	Table filed in Baptie cross-examination entitled "Comparative Unit Revenues, expenses and Surplus per Line, 1984".
17	Table filed in Baptie cross-examination entitled "Effect of Toll Increase to Meet Subsidy".
18	Letter of March 11 1985 from L J Dooling of BC Tel to F Belislie of the CRTC, filed by Rooke in Baptie cross-examina
19	Curriculum vitae of Albert Hawkins, a witness called by the City.
20	Filed evidence-in-chief of Albert Hawkins, a witness called by the City.
21	Auditor's Report from Clarkson-Gordon concerning Thunder Bay balance sheet of the Telecommunications Department as at December 31 1984.
22	Ontario Telephone Service Commission Order No. 4125 in respect to Amtelecom application for approval of the CRTC with Bell Canada, dated February 16 1982.
23	Document entitled "Independent Telephone Statistics", 3 pages, filed by the Province.
24	Ontario Telephone Service Commission Orders No. 4200 of the 4th of February 1983, No. 4347 of the 10th of April 1984 and No. 4674 of the 5th of June 1985 concerning applications of Manitoulin Island Telephone Company Limited.
25	Document entitled "Commission Payment per Message" filed by the Province.
26	Document entitled "Sample Calculation of Commission over 100% of Toll Revenue", filed by the Province.
27	Unaudited Financial Stetements of 'et' for the year ending December 31 1985, filed in response to 'et'(ALTA)25Mar - 141.
28	Information Response from the Milvain material respecting AAB settlement applied to the AGT-'et' situation, undated.
29	Information Response from the Milvain material respecting AAB settlement applied to the AGT-'et' situation, dated "1983 05 25" and marked "(Revised)".

30 Material from the Milvain exhibits entitled "Notes on Alternate Appendix 'B' Calculations", 4 pages.

31 Document entitled "AAB IMPACT - FIRST QUARTER 85" filed by the Province, 2 pages.

32 Document entitled "AA'B IN A CHANGING ENVIRONMENT, TOLL RATE DECREASES DUE TO COMPETITION OR RATE REBALANCING - 10% RARE REDUCTION", 3 pages, filed by the Province.

33 Document entitled "AA'B IN A CHANGING ENVIRONMENT, TOLL RATE DECREASES DUE TO COMPETITION OR RATE REBALANCING - 40% RATE REDUCTION", 3 pages, filed by the Province.

34 Document entitled "AA'B IN A CHANGING ENVIRONMENT, TOLL RATR DECREASE DUE TO COMPETITION OR RATE REVALANCE - DERIVATIONS OF "ET" ILLUSATRATED SAMEPLE CALCULATION - EXHIBIT 10", 2 pages, filed by the Province.

35 Document entitled "COMPARATIVE REQUIREMENTS TEST (CRT)* ('edmonton telephones' - 1982), included in 'et' main submission as VIII - 8, and as Response to Interrogatory 'et'(ALTA)3FEB86 - 106, 10 pages.

36 Document entitled "Expense Eliminated for Calculation of CRT" filed by the Province, 1 page.

37 Document entitled "AGT SUMMARY OF ET POSITION BASED ON ET DATA", 1 page, filed by the Province, one column, "Edmonton".

37A Document entitled "AGT SUMMARY OF ET POSITION BASED ON ET DATA", 1 page, filed by the Province, two columns, "Edmonton" and "Calgary".

38 Document entitled "COMPARISON OF 'et' DEPRECIATION EXPENSE 1984-85"

39 Speaking notes for an opening statement by the Honourable Marc Masse, Minister of Communications, MP for Frontenac, Committee of Ministers, Intergovernmental Position Paper, dated February 27 1986

40 Recommendations of the Executive Committee of the Council of the City of Edmonton respecting installation of a toll operating system for 'edmonton telephones'

41 Document entitled "'edmonton telephones' Toll Switch Fact Sh

42 Letter of February 26 1986 from D R Coolican of AGT to G Lamb of 'et' respecting toll switch plans

43 Curriculum vitae of Willard R McGeary, Section C-II, pages 1 & of the City's main submission.

44	The filed evidence of Willard McGeary, being Section B-III of the City's main submission
45	The curriculum vitae of Andrew Elek, Section C-II, pages 3 through 6 , of the City's main submission.
46	The filed evidence of Andrew Elek, being Section B-I of the City's main submission
47	A series of 6 charts respecting the RSP
48	Document entitled "II. Assistance for Local Company Subscribers to be Used in Conjunction With the New 25 Percent Interstate Allocator"
49	Document entitled "STATUS REPORT - Information Required to Complete Alternate Appendix "B" Calculation"
50	Letter of June 13 1985 from H M Neldner of AGT to G K Foster of 'et' respecting 'et' toll switch
51	Document entitled "'edmonton telephones' 1984 PRELIMINARY COST STUDY"
52	Graph depicting percentage of subsciber plant costs allocated to interstate service
53	Document entitled "EDMONTON TELEPHONES - Toll Service Consultancy Program, Phase I, Feasibility Study Report, January ,1985"
54	Document entitled "RECALCULATION OF 1982 CALGARY STUDY - ('et'(ALTA)3FEB86-87 Enclosure)"
55	Document entitled "1983 DEPRECIATION MINI-CONFERENCE - EFFECTS OF TERMINAL ATTACHMENT ON B.C. TEL TERMINAL EQUIPMENT"
56	Document entitled "COMPARISON OF AGT-'edmonton telephones' COMPOSITE DEPRECIATION RATES"
57	The filed evidence of J E Fyles as found in the main submissio of the Province
58	Ten tables entitled "EVIDENCE IN CHIEF OF THE PROVINCE OF ALBERTA - TOLL REVENUE SHARING"
59	Document entitled "STATUS AS AT MAY 12 1986 OF INFORMATION REQUIRED TO CALCULATE AN ALTERNATE APPENDIX "B" SETTLEMENT".
60	CRTC Decision 85-19 of August 29 1985 re Interexchange Competition and Related Issues.
61	Extracts from the 'edmonton telephones' Annual Report of 1983
62	Statement entitled "COMPARISON OF COMPOSITE DEPRECIATION RATES" covering 'et', AGT, Bell and Sask for the years 1980 through 1985.

63 Statement entitled "AGT Toll Revenues in Current Dollars" and covering the years 1968 through 1985.

64 Statement entitled "AGT Local Revenues in Current Dollars" and covering the years 1968 through 1985.

65 Statement entitled "COMPARISON OF 1982 CALGARY INVESTMENT WITH 1984 CALGARY INVESTMENT".

66 Extracts from 'edmonton telephones' annual report, 1982

67 Document entitled "STATEMENT OF INCOME 1983 - TOTAL COMPANY AND NON-BASIC SERVICES (INCLUDING DIRECTORY)" being a part of the contribution test required by the PUB

67A Document entitled "STATEMENT OF INCOME 1983 - TOTAL COMPANY AND NON-BASIC SERVICES (INCLUDING DIRECTORY)" being part of the contribution test required by the PUB

68 Document entitled "AGT 1984 CALGARY STUDY" under the headings of "General and Administrative Expenses Not Allocated to Calgary" and "General and Administrative Expenses Not Adequately Allocated to Calgary"

69 Document entitled "CALGARY LOCAL DEFICIENCY" comparing rates of Calgary to Ottawa

70 Document entitled "Terminal Equipment Profitability" showing the Bell 5-Way Split Sutdy Results, the BC Tel 5-Way Split Study Results and the 1984 Calgary Study

71 Extracts from Statistics Canada Publication "Telephone Statistics, 1984"

72 Curriculum Vitae of the AGT witness Ellen S Deutsch and which is found in the AGT main filing

73 The Evidence-in-Chief of the AGT witness Ellen S Deutsch and which is found in the AGT main filing

74 Report and Order of the FCC 86-177 (Docket No 78-72) of April 18 1986, in the Matter of MTS and WATS Market Structure, Average Schedule Companies.

75 Document entitled "IMPACTS OF COMPETITION IN MESSAGE TOLL TELEPHONE SERVICES - A study carried out for the DEPARTMENT OF COMMUNICATIONS and PROVINCIAL GOVERNMENTS"

76 Letter dated 1981 10 06 to Mr Baptie of 'et' from Bell and enclosing a description of the Comparative Requirements Test as viewed by Bell.

77 Extracts from the AGT Argument on Behalf of Alberta Government Telephones before the CRTC IN THE CNCP Telecommunications versus Bell Canada and British Columbia Telephone Company Limited case, and dated December 21 1984

78 Document entitled "CALGARY-EDMONTON STEP-BY-STEP REPLACEMENT" showing as the bottom line TOTAL COST INCREASE

79 Document entitled CALCULATION OF 'et' 1985 RATE BASE PER AGT. showing Plant-in-Service and Working Capital on a mid-year basis, 1984-1985

80 Letter from Amtelecom Group Inc to 'et', May 7 1986, respecting municipal taxes, gross receipt tax and income tax for 1985

81 Document entitled "INFORMATION REQUESTED BY CNCP TELECOMMUNICATIONS, FEBRUARY 20 1984", being Response to Interrogatory Bell (CNCP) 20Feb84-609 IC, respecting taxes

82 Memorandum to Ontario Independent Telephone Systems from the Ontario Telephone Service Commission dated February 4 1974 respecting municipal taxation of telephone systems

83 Document entitled "REVENUE SHARE TO BE PAID BY AGT TO 'et' UNDER THE COMPARATIVE REQUIREMENTS TEST, 1985" being a variation of Table 7-5 on page 149R of the Province's main submission

84 Extracts from the CRTC Telecom Decision CRTC 81-13, respecting Bell Canada, BC Tel and Telesat Canada and concering Rates by the TTS

85 Document entitled "ANSWER TO UNDERTAKING GIVEN BY J E FYLES DURING CROSS EXAMINATION BY THE CITY OF CALGARY " in connection with the amortization of station connection costs and the effect on net income for 1985 and 1986

86 The City's calculation of Alternate Appendix 'B' for the first three months of 1985 by month, for the first quarter in total, and annualized. (A submission with 11 tabs and separately bound)

87 Document entitled "Table 7-5 (Restated by 'et') REVENUE SHARE PAID BY AGT TO 'et' UNDER THE COMPARATIVE REQUIREMENTS TEST - FIRST QUARTER 1985"

88 Document entitled as in Exhibit 87 but also showing the results of an increase in AGT local rates of 6.0% and of 21.9%.

89 Document entitled "1984 ALBERTA SUBSIDY FROM TOLL REVENUE" classified by centres.

90 Document entitled "Calculation of Weighted Average Subsidy Per Line" classified by centres.

91 Curriculum Vitae and Evidence-in-Chief of the AGT witness Charles A. Zielinski.

92 Document entitled "1984 EMPLOYEES VERSUS ACCESS LINES" and classified by telephone companies in Canada.

93 Document entitled "1984 OPERATING EXPENSES VERSUS ACCESS LINES" and classified by telephone companies in Canada.

94 Document entitled "1984 NET INVESTMENT VERSUS NETWORK ACCESS LINES" and classified by telephone companies in Canada.

95 Document entitled "URBAN/RURAL DISTRIBUTION FOR POPULATION AND HOUSEHOLDS FOR SELECTED CANADIAN PROVINCES, 1981", classified by seven Provinces, showing the serving telephone companies and the population distribution.

96 Document reflecting section of the Interconnecting Agreement between 'et' and AGT dealing with the provisioning of Customer Special Service Circuits.

97 Document entitled "UNDERTAKINGS GIVEN AT THE CONTINUATION OF THE EXAMINATION FOR DISCOVERY OF JAMES EDWARD FYLES HELD AT EDMONTON ON DECEMBER 18 AND 19, 1984".

98 Letter of June 11, 1986 from Bell to the Arbitration Committee respecting Sections 6 and 11 of the ICR Manual.

99 Document prepared by AGT entitled "ALTERNATE APPENDIX 'B' SUMMARY (ADJUSTMENT FACTOR REMOVED)" based on Tab 1 of Exhibit 86.

100 Two volumes containing the last available versions of the cancelled Interconnecting Agreements. (One copy only supplied, which is with the Executive Assistant.)

101 Letter and attachment of May 9, 1986 from Northern Telecom to Mr. Pratt with a summary respecting the toll switch under engineering for 'et' by Northern Telecom.

102 CRTC Decision of May 13, 1986 respecting interconnection arrangements between 'et' and CNCP Telecommunications.

103 Table prepared by 'et' headed "CENTRAL OFFICE CODE AND CORRESPONDING TOLL CENTRE".

104 Document entitled "TABLE 2 LONG-RUN PRICE ELASTICITIES OBTAINED FROM AGGREGATE TOLL DATA".

105 Document entitled "ALTERNATE APPENDIX 'B' IN A CHANGING ENVIRONMENT MESSAGE TOLL RATE DECREASES DUE TO COMPETITION OR RATE REBALANCING - 10% RATE REDUCTION" and reflecting the results to AGT.

105A Document entitled "ALTERNATE APPENDIX 'B' IN A CHANGING ENVIRONMENT MESSAGE TOLL RATE DECREASES DUE TO COMPETITION OR RATE REBALANCING - 10% RATE REDUCTION" and reflecting the results to 'et'.

106 Document entitled "ALTERNATE APPENDIX 'B' IN A CHANGING ENVIRONMENT MESSAGE TOLL RATE DECREASES DUE TO COMPETITION OR RATE REBALANCING - 20% RATE REDUCTION" and reflecting the results to AGT.

106A Document entitled "ALTERNATE APPENDIX 'B' IN A CHANGING ENVIRONMENT MESSAGE TOLL RATE DECREASES DUE TO COMPETITION OR RATE REBALANCING - 20% RATE REDUCTION" and reflecting the results to 'et'.

107 Document entitled "ALTERNATE APPENDIX 'B' IN A CHANGING ENVIRONMENT MESSAGE TOLL RATE DECREASES DUE TO COMPETITION OR RATE REBALANCING - 40% RATE REDUCTION" and reflecting the results to AGT.

107A Document entitled "ALTERNATE APPENDIX 'B' IN A CHANGING ENVIRONMENT MESSAGE TOLL RATE DECREASES DUE TO COMPETITION OR RATE REBALANCING - 40% RATE REDUCTION" and reflecting the results to 'et'.

108 Document prepared by AGT entitled "AGT Comments re 'et's 1984 Calgary Study - 'et' (Committee) 5 June 86-3 (ix)".

109 A collection of correspondence submitted by 'et' dealing with the history of the toll switch 'et' proposes to install.

110 Document submitted by 'et', being the Evidence-in-Chief of J. E. Fyles of May 25, 1981 before the PUB re terminal attachment plan.

111 A Notice of Application to the PUB by the City of Calgary respecting Calgary rates.

112 Document entitled "Table 7-3 Restated ALTERNATE APPENDIX 'B' MESSAGE TOLL SHARE ENTITLEMENT PER MAIN STATION 1984" and dealing with centres in AGT's service area.

113	Document entitled "ANSWER TO UNDERTAKING BY C. A. ZIELINSKI DURING RE-EXAMINATION".
114	Table prepared by 'et' entitled "CANADIAN TELCOS 1984 COMPARISONS (000)" and dealing with 13 Canadian telecommunication companies.
115	Document prepared by 'et' entitled "1984 ALBERTA SUBSIDY PER ACCESS LINE COMPARED TO TOTAL ALTERNATE APPENDIX 'B' PAYMENTS TO INDEPENDENT COMPANIES IN ONTARIO AND QUEBEC".
116	Document submitted by 'et' entitled "Line Terminals and Telephones Report, Month of December '84".
117	Letter of April 19, 1986 from Mr. Baby of Telecom Canada to Mr. Foster of 'et' respecting Alternate Appendix "B".
118	Document prepared by AGT entitled "Fully Allocated Calgary Commercial Marketing, General and Administrative and Pension Fund Expenses".
119	Document prepared by AGT entitled "Costs and Revenue Changes of 'et' on a 'Stand Alone Basis' (As for Calgary in ALTA 20)".
120	CALGARY - STAnd-ALONE SUMMARY, prepared by AGT, showing stand-alone contribution of $6.2 million.
121	Copy of billing agreement between 'et' and AGT, By=law No. 8133 (as amended).

PROVINCE OF ALBERTA

TOLL REVENUE SHARING
J.E. FYLES
R. KALVAITIS
JUNE 24, 1986

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TABLE 7-5

REVENUE SHARE TO BE PAID BY AGT TO 'et'

UNDER THE COMPARATIVE REQUIREMENTS TEST FOR 1985

	Total 1985
REVENUES	
Local	$171,597,415
Toll Interprovincial	3,945,784
Directory & Sales	18,834,994
Other	11,871,439
'et' Rate Adjustment	(24,633,033)
AGT Toll Payments	(8,132,862)
Total Revenues	$173,483,737
EXPENSES	
Maintenance	32,831,133
Depreciation	57,098,465
Bus. Development & Sales	23,794,264
Taxes	3,148,134
Operations	36,388,118
Depreciation Adjustment	(13,433,308)
Expense Adjustment	(9,011,670)
Total Expenses	$130,815,136
Net Operating Income	42,668,601
Required Operating Income (AGT Allowed Rate of Return)	52,542,694
Payment to 'et'	9,874,093

PROVINCE OF ALBERTA

TOLL REVENUE SHARING
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R. KALVAITIS
JUNE 18, 1986

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TABLE 7-7

COMMISSION RATE CALCULATION

	1985 TOTAL	JAN	FEB	MAR	3 MO. TOTAL
MTS SP	34,450,138	2,444,178	2,761,682	2,605,638	7,811,498
MTS RC	1,328,994	89,629	108,648	100,151	298,428
INWATS	4,919,178	356,221	335,775	384,709	1,076,705
OUTWATS	3,327,223	251,870	234,621	270,059	756,550
TOTALS	44,025,533	3,141,898	3,440,726	3,360,557	9,943,181

CRT Shortfall = $9,876,917

Commission rate

Commission per message = $\frac{\$\ 9,876,917}{44,025,533}$ = $.224/message

TABLE 7-8

Total Commissions

	JAN	FEB	MARCH	3 Mo. TOTAL
Messages	3,141,898	3,440,726	3,360,557	
Commission rate	.224	.224	.224	
Total Commissions	$ 703,785	$ 770,723	$ 752,765	$2,227,273

an opportunity for regulators to examine closely the need for and the impact of such subsidies on particular groups of subscribers, since any such subsidies will flow through the settlement process."

7.4.2 Application of the Comparative Requirements Test

In the Alberta context, the CRT can be applied by comparing the position of 'et' with what its position would be if it were a similar city in AGT's system. The operative comparison is between the financial and operating conditions of 'et' and that of a hypothetical similarly situated community in AGT's territory.

The first step in the application of the CRT is to conceptually equalize the basic service rates for 'et' to determine the revenue which would be derived if 'et' were a similarly situated community in AGT's territory. AGT rates for a particular community are determined by the rate group in which the community falls in accordance with a formula based on the sum of the number of main stations which are accessable within the exchange itself, the number of main stations in the Extended Area Service (EAS) area, and the number of distance weighted main stations accessable within the Extended Flat Rate Calling (EFRC) area. In accordance with this formula the City would be in AGT's Rate Group 8. (See Appendix 6 for AGT's Tariff pages in this respect.)

After the above adjustment to revenue has been made, all operating expenses must be evaluated in comparison to AGT to determine if adjustments are required.

The first obvious adjustment is the 8% revenue tax since such a tax would not apply if 'et' were part of the AGT system. The revenue tax would be replaced with the appropriate business and property tax. Inclusion of the full 8% revenue tax in the operating expenses of 'et' in the CRT calculation would confer a benefit to Edmonton customers in terms of reduced taxes at the expense of AGT customers. If the owners of 'et', the citizens of Edmonton, wish to pay part of their taxes through higher telephone rates, that may be appropriate for them. However, the customers of AGT outside Edmonton must not be required to pay a portion of that tax through a toll revenue sharing formula. According to the City's Evidence in Chief, page III-11, the business and property taxes are 2% of gross revenues. In the following calculation, the 2% property and business tax has been substituted for the 8% gross revenue tax.

Other operating expenses (including maintenance, traffic, business development, and sales and operations) would then

have to be examined in depth to determine if they are appropriate in comparison with Calgary.

In the examination of operating expenses, other than depreciation, it is important to analyze these expenses in relation to what they would be if 'et' were a part of the AGT system. There are overheads associated with operating 'et' as a separate company which would not exist if 'et' were merged with the operations of AGT. From an analysis of expense data supplied by the City the following Table 7-4 shows overhead expenses and intercorporate allocations from the City that are considered to be expenses incurred because 'et' is a separate company and not part of the total province wide system. These expenses would not be incurred if Edmonton were a similarly situated city in AGT's system. In accordance with the Committee's mandate to establish a formula which provides fair and equitable treatment for all Albertans it is inappropriate for AGT customers to pay a share of toll revenues to support functions which could be avoided if 'et' were merged with the total provincial system. It is not our argument that such expenditures are inappropriate, but if Edmontonians want to own and operate a separate telephone company they must bear the additional costs that such proprietorship entails.

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Other expense categories, primarily in staff areas, have been reviewed, and it is believed that most could be reduced to some extent if 'et's operations were merged with AGT's; however, for the purpose of this CRT calculation, reductions have not been made.

In view of the above, AGT has extracted the expenses shown in Table 7-4. The expenses shown were those incurred in 1985. In the review of the operating expenses of 'et' we have concluded that there are no expenses that would increase if 'et' were a similarly situated city in AGT's system.

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TABLE 7-4

Expenses Eliminated for Calculation of CRT

CODE	ITEM	1985 AMOUNT $
64510	Business Office Automation	1,356,306
66534	CNCP Interconnect	77,000
66535	CITA Payment	13,512
66537	Toll Negotiation Campaign	105,959
66509	Corporate Planning & Standards	944,574
66522	Public Relations	784,663
66526	Executive Expense	798,210
66540	Inter Company Relations	281,066
66542	Regulatory Affairs	272,657
66570	Buildings, Vehicles & Supplies Staff Group	262,705
66836	Rates & Tariffs	394,886
66520	Central Management	2,396,777
66530	Bell Service Agreement	709,720
64302	Market Planning Network	192,612
64303	Market Planning	421,023
	Total	9,011,670

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The next step in the CRT is to examine depreciation expense to determine if it is in accordance with methods generally accepted by the Public Utilities Board. However, the new data provided by 'et' in 'et' (ALTA) 3 Feb 86-29 Supplementary and in 'et' (ALTA) 7 Apr. 86-162 clearly shows that depreciation expense for 1985 is excessive. The $11 million shown in part (a) of 'et' (ALTA) 7 Apr 86-162, is a write-off of equipment. This is a one time adjustment and should be considered an extraordinary adjustment and must not be included as depreciation expense in the CRT.

The $2,332,252 shown in part (b) of 'et' (ALTA) 7 Apr. 86-162 is identified by 'et' as a reduction in average service life of Key Telephone equipment from 12 to 4 years. Since much of that equipment is already more than 4 years old this adjustment appears to be unreasonable.

For the above reasons, AGT believes that a total of $13,433,308 of 'et's depreciation expense should be excluded for the purpose of the determination of the CRT for 1985.

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After all operating expenses are evaluated and adjusted the Rate Base of 'et' and AGT must be determined in accordance with methods set out by the Public Utilities Board. In evaluating the Rate Base, capital expenditures must be determined to be prudent. We have no reason to believe that 'et's Rate Base, as determined from its capital accounts, is inappropriate and therefore it is accepted for the purpose of this CRT calculation. In future CRT calculations however the capital expenditure program may require examination.

After determination of the Rate Base for AGT and 'et', it is necessary to determine the appropriate rate of return on that Rate Base. In determining the appropriate rate of return, the Committee of Inquiry stated:

> If the rate of return is reasonable and is comparable considering differences in financial and business risk, to the return on investment that the major company would expect to receive, then the toll retention rate will not require further adjustment (Appendix 5, p. 67).

Having regard to the above it appears that the Committee of Inquiry would select the allowed rate of return of the major company unless there was any evidence to indicate that the business risk of the two companies was different. A higher rate of return than that allowed by the Public Utilities Board for AGT would not be appropriate because the application of the CRT would provide 'et' with sufficient revenues to achieve AGT's allowed rate of return. 'et' would in effect have no risk that it would fail to earn that rate of return. Therefore we have used AGT's allowed rate of return for the purpose of this calculation since that appears to be the rate of return that would be selected by the Committee of Inquiry and is the rate of return preferred by the City (see 'et'(ALTA)3Feb 86-106).

In the CRT calculation shown in Table 7-5 the above adjustments to 'et' revenues and expenses were applied to determine the revenue share for the City for 1985 using data provided in 'et'(ALTA) 25 Mar 86-141.

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The data contained in Table 7-5 is as follows:

Revenue

Data is that provided by 'et' (ALTA) 25 Mar 86-141 with the following exceptions:

(i) Line 5, 'et' Rate Adjustment, is the adjustment required to impute AGT rates in Edmonton. For this purpose the AGT rates which were in effect after August 28, 1985, were used. Such rates were 4.85% lower than those in effect in the first quarter of 1985.

(ii) The last line, Toll Related Revenue, is the adjustment required to remove AGT toll related payments to 'et' as set out in Table 3-1, p. 52.

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Expense

Data is that provided in 'et' (ALTA) 25 Mar 86-141, except for the following:

(i) Taxes have been reduced to the 2% gross revenue tax that would apply for property and business tax rather than the 8% revenue tax included in the 'et' data.

(ii) 'et' Expense Deduction is applied to reduce 'et' expenses in accordance with the data shown in Table 7-4.

Net Operating Income is total revenue minus total expense.

The Required Operating Income is the income derived from the application of AGT's allowed rate of return on its Rate Base to the 'et' Rate Base. The determination of Required Operating Income is shown in Table 7-6.

The difference between 'et's Net Operating Income and the Required Operating Income identifies the required contribution.

WITNESSES APPEARING BEFORE THE ARBITRATION COMMITTEE

(In order of appearance)

1.	B.A. BAPTIE	Called by the City. Presently Manager of Finance and Administration of 'edmonton telephones' MBA (University of Alberta) CMA, Society of Management Accountants.
2.	R.O. PETERSON	Called by the City. Manager of Telecommunications consulting with Ernst & Whinney of Tacoma, Washington. MBA (University of Chicago) BA (University of Washington)
3.	ALBERTA HAWKINS	Called by the City. Currently Vice-President and General Manager of Teleco Supply Co. Ltd. Electrical Engineering and Technology (Lakehead University) Previously General Manager, Thunder Bay Telecommunications 1981 to 1985.
4.	J.E. FYLES	Called by the Province. Assistant Vice-President, Intercarrier and Regulatory Affairs, AGT. B.Sc. Electrical Engineering (University of Alberta)
5.	R. KALVAITIS	Called by the Province. General Engineer, Depreciation and Costs, AGT. B.Sc. Electrical Engineering and MBA (University of Alberta).
6.	A. ELEK	Called by the City. P.Eng. and affiliated as Professional Engineer (Ontario), and Institute of Management Consultants (Ontario). Transportation and Research Board (US Academy of Sciences)
7.	WILLARD R. McGEARY	Called by the City. Consultant for General Telephones and Electronics. Previously with Rochester Telephones and the US Telephone Association.

8.	R.J. FALCONER	Called by the City. Manager, Inter-Company Relations and Settlements, 'edmonton telephones'. Past Director of Canadian Independent Telephone Association. B.Com. (University of Alberta)
9.	ELLEN S. DEUTSCH	Called by the Province. With law firm of Fletcher, Heald & Hildreth. BA (Antioch College, Ohio) and JD (Catholic Univerity, Washington DC) Previously with FCC and other national telecommunication tribunals.
10.	G.A. ZIELINSKI	Called by the Province. Presently with law firm of Rogers and Wells in Washington, DC. Graduate in Law from State University, New York, previously with the General Counsel's Office of the FCC and Chairman of the New York State Public Service Commission

(A more detailed and complete listing of the curriculae vitae of the witnesses is included in the main filings of the parties)

ARBITRATION COMMITTEE

The City of Edmonton and The Province of Alberta

Respecting certain issues between Alberta Government Telephones and edmonton telephones.

Chairman: The Hon. Tevie H. Miller
Members: Mr. Charles M. Dalfen
Dr. Hu Harries
Executive Assistant: S. M. Barnett

December 2, 1986.

To: Alberta Government Telephones, and
Edmonton Telephones

1. Attached is a copy of "Cost Approach - The Concept" consisting of two pages.

2. Attached is a copy of "Cost Approach - 2-Way Split (Toll & Local) - Based on Alta 92" consisting of 6 pages with Tables 1-4 attached thereto.

3. Attached is copy of Fyles memorandum to the writer which was provided prior to October 16, 1986 and is attached for use for certain references used in the material mentioned in paragraph 2 above.

4. Kindly let me have, at your early convenience your response to the concept mentioned in paragraph 1 above in respect to its meeting the requirements of the mandate of the Arbitration Committee.

5. Kindly let me have, at your early convenience better numbers (more accurate) with respect to the material mentioned in paragraph 2 above.

6. I request that AGT and et work together in developing the response to paragraphs 4 and 5 above under the direction or supervision of the top operating person in AGT and et. (i.e. the President and the General Manager, respectively.)

7. If AGT and et are unable to agree on the responses to paragraphs 4 and 5 above then kindly let me have the differences together with the reasons for the same.

B. Archibald
Member of the Arbitration Committee

COST APPROACH - THE CONCEPT

1. Start with all Toll Revenues that are received and retained in Alberta from toll calls that originate and terminate in the City of Edmonton - net of settlement with Telecom Canada and net of bad debt write-offs.

2. Deduct A.G.T.'s and et's toll costs with respect to those toll calls and pay to the respective parties. Use the same cost allocation methodology for each of AGT and et. Toll costs defined as the costs of toll service with proper overhead loading but without any loading for costs which would be incurred in any event for providing local service. There should not be any element of "return on equity" or "profit" with respect to those costs (as any "return" or "profit" on toll service in Edmonton will be shared between AGT and et, after the toll costs and subsidy costs have been paid out of the toll revenues generated in Edmonton).

   - For now use an existing cost allocation methodology that is on the record of these proceedings, such as that used by AGT in ALTA 92 or the FCC (Parts 67 & 69) as amended by Zielinski.
   - Direct AGT and et to set about to find a better method of allocation - more closely related to the Alberta situation and better refined.

- Upon agreement or when either feel they have a better method, can go to the STT for approval and STT can direct that better method be used from then on.

3. Deduct and share AGT's and et's subsidy costs in each of their respective service areas. Determine their respective subsidy cost by deducting local revenues from local costs. In each case local costs will be the balance of total costs after deducting toll costs used in paragraph 2 above. et's local revenues are adjusted to the amount it would be if applicable in AGT service area. et's local costs are adjusted by using a property tax applicable to Calgary rather than the revenue tax in Edmonton.

   The sharing is explained in the calculation attached.

4. The balance of toll revenues generated in Edmonton is then shared on the basis of revenues or number of toll calls or minutes of toll calls.

5. For prospective purposes, convert the share of et to a rate per toll call, or minutes of toll call, for a monthly payment with a 13th month reconciliation or true-up.

COST APPROACH - 2 WAY SPLIT (TOLL & LOCAL) - BASED ON ALTA 92

1. All Revenues and Costs of both AGT and et are allocated to 2 categories, Local and Toll.

2. For AGT the "Distribution of Revenues and Expenses for 1984" (Alta 92) is used as the basis for arriving at the 2 Way Split. Column "Competitive Network" is assumed to be part of Toll. Column "Competitive Terminal is assumed to be part of Local, together with the Columns "Local" and "Loop (access)". The Columns entitled "Common" and "Other Investment" are allocated to Toll and Local in proportion to Operating Expense plus Interest Expense less Other Income for each category.
   Note - this may or may not be the best way to allocate common costs but it appears reasonable since it gives effect to both Operating Costs and Capital Costs.
   NOTE - Table 1 and Table 2 attached for this exercise.

3. For et a split of Revenues and Costs into Toll and Local is not available on the record. Toll now is defined to include " Competitive Network" and the exact amount of Competitive Network Costs to et is not known. These Competitive Network Costs for et are estimated at $3M. The Competitive Network Revenues for et are also unknown but

are estimated at $15M which is about 30% of Total Alberta Competitive Network revenue for 1984. It is further assumed that et was charging AGT $4M for Competitive Network which costs them $3M.

Other information is obtained from et's Annual Report for 1984. However the following adjustments are made -

(a) Local Revenues for et for 1984 are reduced by $24M which would be the actual figure had et applied lower rates applicable in AGT service area.

(b) The Revenue Tax is excluded from the expense column and replaced by a property tax to make it comparable to AGT. The property tax for et is estimated at $3.534M for the purpose of this exercise. This figure is close to AGT's property tax in Calgary.

(c) Basic Toll Revenue in et's financial statements is shown as $3.569M. This is increased to $5.798M (et 143R) to account for receipt of payment from AGT for Out of Province traffic as well as In Province traffic. Costs associated with this revenue are $5.586 M (Ex 113 page 1). These revenues and costs are further increased by $4M and $3M respectively to account for "Competitive Network" which are now included as part of Toll.

NOTE - Table 3 and Table 4 attached for this exercise.

4. Restated AGT's and et's results for 1984 - (in $1000).

	TOLL	LOCAL
AGT Revenues	$588,173	$ 375,316
AGT Costs	283,374	646,737
AGT Profit (Loss)	$304,799	$(271,421)
et Revenues	$ 9,798	$ 150,522
et Costs	8,586	162,958
et Profit (Loss)	$ 1,212	$ (12,436)

Toll Revenue generated in Edmonton is estimated at 127,005 (pp. 3 Fyles memo to me) + 15,000 (estimated Competitive Network) = 142,005.

Toll Revenue generated in Alberta - 588,173

Total Toll Cost for Alberta 283,374 - 9,798 + 8,586 = 282,162

(NOTE: AGT's Cost of 283,374 includes 9,798 (from table above) paid to et.)

Total Loss on Local Services in Alberta

271,421 + 12,436 = 283,857

Total Toll Profit in Alberta

588,173 - 282,162 = 306,011

Each of et and AGT are entitled to recover losses from telephone services which are not self-supporting and share the remaining profit (if any) in proportion to usage. If Toll profits are not sufficient to cover all losses, each must carry a portion of the short-fall.

5. AGT's requirement for local subsidy = 271,421

et's requirement for local subsidy = 12,436

Total Alberta requirement for local subsidy 283,857

6. Each Company must first recover its costs of providing toll service in the City of Edmonton.

AGT's Causal Toll Costs - $48,896,767 (pp. 5 Fyles Memo to me).

et's Causal Toll Costs - $ 5,586,468 (Ex. 113, p. 1)

NOTE: On an ongoing basis, these toll costs would be determined using the same separation methodology.

7. The portion of the Alberta Subsidy (283,857) which should be recovered from Toll revenues generated in Edmonton =

$$\frac{\text{Toll revenue generated in Edmonton}}{\text{Toll revenue generated in Alberta}} \times \text{Alberta Subsidy}$$

or: $\frac{142,005}{588,173} \times 283,857 = 68,533$

8. The Edmonton portion of the Alberta requirement for local subsidy is therefore 68,533 which should be paid out of Toll revenues generated in Edmonton and as well Edmonton's requirement for its local subsidy is 12,436. Therefore, AGT receives 68,533 - 12,436 = 56,097 from Toll revenues generated in Edmonton and et receives 12,436 from Toll revenues generated in Edmonton.

NOTE: The remainder of AGT's subsidy requirement is provided out of toll revenues generated in its own service area.

9. To determine the sharing of the Balance between AGT and et first determine the Balance-

Toll revenues generated in Edmonton minus AGT's and et's costs re those toll services minus City of Edmonton's share of the Alberta requirement for local subsidy -

or: 142,005 - (48,897 + 8,586) - 68,533

or: 142,005 - (57,483 + 66,533)

or: 142,005 - 126,016 = 15,989

The Balance is shared (in this exercise) on the basis of respective toll revenues, although to share on basis of # of toll calls or minutes of toll calls would be satisfactory.

et's share of balance -

$$\frac{142,005}{588,173} \times 15,989 = 3,860$$

AGT's share of balance -

$$\frac{446,168}{588,173} \times 15,989 = 12,129$$

10. et's total share of Toll revenues generated in Edmonton -

et's Toll costs	$ 8,586,000
Edmonton Subsidy requirement	12,436,000
et's share of balance	3,860,000
Total	$ 24,882,000

11. AGT's total share of Toll revenues generated in Edmonton -

AGT Toll costs	$ 48,897,000
Edmonton share of Alberta subsidy) requirement less Edmonton subsidy) requirement)	56,097,000
AGT's share of balance	12,129,000
Total	$117,123,000

12. et's share of Toll revenues generated in Edmonton for the year 1984 is $24,882,000.
Now determine the rate or commission per message for 1984 in order to provide a monthly payment to et for 1985 (particularly the first 3 months of 1985 to satisfy our mandate).

13. I suggest a "13th month" reconciliation or true-up after the actuals are available which will mean an adjusting payment to or from et.

TABLE 1

NOTE: Shows development of numbers for Table on page 3 of Cost Approach

ALTA 92 after combining Basic Toll and Competitive Network under Toll; combining Local, Loop (access) and Competitive Terminal under Local; combining Common and Other Investment under Common

TABLE 1 - $1,000

	Toll	Local	Common
Revenues	587,029	372,706	3,754
Operating Expenses	199,295	445,247	58,503
Interest	79,284	191,789	18,786
Minus Other Income	(17,442)	(39,787)	(4,300)
Minus Extraordinary Item		(1,264)	
Total Expense	261,137	595,985	72,989

TABLE 2

NOTE: Shows development of numbers for Table on page 3 of Cost Approach

TOLL REVENUE AND COSTS FOR WHOLE PROVINCE

1984

Allocation of Common in Table 1 to Toll and Local in proportion to Operating Expenses plus Interest Expense less Other Income for each category

	Toll	Local
Revenues	$587,029 + \frac{261,137}{857,122} \times 3,754$	$372,706 + \frac{595,985}{857,122} \times 3,754$
	= 588,173	= 375,316
Expenses	$261,137 + \frac{261,137}{857,122} \times 72,989$	$595,985 + \frac{595,985}{857,122} \times 72,989$
	= 283,374	= 646,737
Profit (Loss)	304,799	(271,421)

TABLE 3

NOTE: Shows development of numbers in Table on page 3 of Cost Approach.

et Toll Revenue - 1984 ($1,000)

NOTE: et Financials says et recd. 3,569 for extra provincial toll revenue.

Toll Revenue	5,798	(stated by Fyles pp. 4 of his memo to me - gives reference to et 143R)
Add:	4,000	(I assumed et revenue received from AGT re Competitive Network)
	9,798	

et Local Revenue - 1984

Start with Total Revenue from their Financials

	$184,320
Less Toll (my number above)	9,798
	$174,522
Less Rate Adjustment	24,000
Total et Local Revenue (adjusted)	$150,522

TABLE 4

NOTE: Shows development of numbers in Table on page 3 of Cost Approach

et Toll Costs - 1984

et Causal Toll Costs	$5,586	(stated by Fyles pp. 5 of his memo to me - gives reference Ex. 113. pp. 1)
Plus:	3,000	(assumed by me to be et's Competitive Network costs)
	$8,586	

et Local Costs - 1984

From Financial Statements

Total Revenue	$184,320	
Deduct Profit	2,776	
Total Costs	$181,544	
Less	10,000	(Revenue Tax Adjustment)
	$171,544	
Less Toll Costs	8,586	(shown above)
Total Local Costs	$162,958	

at the request of the Chairman (page 2 line 31)
Dixon to October 16, 1985. Used for
certain references in the attached
"Cost Approach"

New Settlement Plan

As described on page 95R of the Province's Evidence-in-Chief a concept of a new plan is as follows:

Revenue generated in the City
Minus payments to carriers outside Alberta
Minus causal toll costs of AGT and 'et'
Minus revenue required to finance
non-self-supporting services
Equals revenue available for sharing based on usage.

Revenue Generated in the City

Revenue generated in the City is defined as Message Toll, WATS and 800 service revenues collected from customers located within the corporate boundaries of Edmonton (the 'et' service area). (See Alta Evidence in Chief p. 90 and 91). For the year 1984 the total Message Toll revenues collected in Edmonton are $132,711,200 (see Alta (et) 24 Dec 85 -1a, p. 3 of 7).

WATS revenues for 1984 must be estimated from data provided in Alta (et) 24 Dec - 1d. If it is assumed that the average revenue per WATS message for March 1985 (the only data available) is a reasonable approximation of the average revenue per message for 1984 then the total WATS revenue for 1984 can be calculated by multiplying the total number of messages in 1984 by the average revenue per message. (2,170,092 messages x $0.7892 per message = $1,712,664).

800 Service revenues must be estimated because of the limited data available. From Alta (et) 24 Dec 85- 1e the billed revenue for March 1985 was $501,778. The 1984 800 services revenues can be approximated by multiplying the March 1985 revenues by 12. Total revenue is therefore $6,021,336.

The total toll revenue generated in Edmonton is obtained by adding the Message Toll, WATS and 800 service revenues derived above. The total is $140,445,200 and is somewhat overstated because of the approximations used to determine WATS and 800 service revenues.

Payments to Carriers Outside Alberta

AGT's total originated revenues (revenues billed in Alberta) are determined by subtracting the total extra provincial settled revenues for 1984 from total AGT settled revenues for 1984 and adding the total extra provincial originated revenues for 1984. The total settled revenues were $539,124,000 in 1984 (See Alta 92, page 1 of the printout, line 1). The total settled extra provincial revenues were $287,522,000 in 1984 (see Alta - 77) The total originated extra provincial revenues were $344,544,000 in 1984 (see Alta 77). Total originated revenues were therefore $596,146,000 in 1984. The ratio of total settled revenues to total originated revenues is therefore 0.9043.

If it is assumed that the ratio of settled revenues to total originated revenues is the same for revenues generated in Edmonton then the revenue remaining after settlement with other carriers is 0.9043 x 140,445,200 = $127,004,590. The amount of revenue generated in Edmonton which was paid to other carrier is therefore $13,440,610.

Causal Toll Costs of AGT and 'et'

AGT Causal Toll Costs

AGT's causal toll costs can be determined from Alta 92 if it is assumed that the ratio of causal costs to settled revenues is the same for calls originating and terminating in Edmonton is the same as the ratio of causal toll costs to settled revenues for calls originating and terminating in Alberta as a whole.

Total province wide causal toll costs are determined by subtracting the net contribution from toll service of $325,771,000 (see Alta 92, page 1, last line) from total toll revenues of $539,124,000 (Alta 92, page 1, line 1). Total causal toll costs are therefore $213,353,000.

Included in AGT's province wide causal toll costs is the amount paid to 'et' for toll services. This amount is $5,798,820 as shown in 'et' 143R. AGT causal toll cost excluding payments made to 'et' are therefore $207,554,180. The ratio of AGT causal toll costs to total toll revenues is therefore 0.385.

AGT's causal toll costs associated with calls originating and terminating in Edmonton is therefore $48,896,767 (127,004,590 x 0.385).

'et' Causal Toll Cost

'et' causal toll cost is determined from Exhibit 113 page 1 to be $5,586,468.

Revenue Required to Finance Non-self-supporting Services

Revenue required by AGT to finance non-self-supporting service can be determined from Alta 92. The total revenue shortfall from the provision of local service and loop (Access) is $252,209,000 (see Alta 92, page 1, last line of columns 4 and 5). This loss is partially offset by profits from competitive services of $30,050,000 (see Alta 92, page 1, last line of columns 3 and 6). Therefore the total revenue required to finance non-self-supporting services is $222,159,000.

If it is assumed that AGT toll customers outside Edmonton and toll customers inside Edmonton must equally bear the cost of non-self-supporting services in relation to the

amount of toll revenue generated by each group of customers then the amount required to be financed by Edmonton customers is 127,004,590 $\div$ $539,124,000 x 222,159,000 = $52,335,293 and AGT customers outside Edmonton are required to finance the remaining $169,823,717.

It is now necessary to determine if there are any non-self-supporting services in Edmonton that are required to be financed from toll revenues generated in Edmonton. In determining the amount required in Edmonton in the same way it was determined for AGT it is necessary to examined the financial results for the combination of local, loop (Access) and competitive services in Edmonton. Although the 'et' financial data has not been broken down into these components it is clear that these components make up the total 'et' system. It is therefore only necessary to examine the 'et' financial statements to determine if there are any non-self-supporting services in total. In 1984 'et' earned a net income of 2,776,124 and paid itself a tax of $10,150,541 for a total return on equity of 30.4% (Alta Evidence-in-Chief, p.66). It is therefore obvious that 'et' did not have any non-self-supporting services which require financing.

Revenue Available for Sharing Based on Usage

Having determined all of the above it is now possible to determine the amount of revenue available for sharing based on usage according to the proposed formula.

Revenues Generated in the City	140,445,200
Less Revenue paid to other carriers	13,440,610
Less AGT causal toll costs	48,896,767
Less 'et' causal toll costs	5,586,468
Less Revenue for financing non-self supporting services	52,335,293
Equals Revenue available for sharing	20,186,069

It is now necessary to determine how the remaining revenue is to be shared by AGT and 'et' based on usage. The ultimate measure of usage is the cost caused by that usage. From the above the AGT causal cost associated with calls originating and terminating in Edmonton is $48,896,767 and the cost caused by usage of the 'et' system is $5,586,468. 'et's share of the remaining revenues is therefore $5,586,468 ÷ $54,483,235 x $20,186,069 = $2,069,789.

The total 'et' share of revenue generated in Edmonton is therefore its causal costs of $5,586,486 plus $2,069,789 or $7,656,257. This is 'et's share for the year 1984 and therefore it is necessary to determine the rate per message in order that the formula can be applied to the first three months of 1985.

During 1984 the messages generated in Edmonton were as follows.

Message toll sent paid messages (Alta-1a, p.3)	$ 31,133,036
Message toll received collect messages (Alta 1-1a, p.3)	1,217,301
WATS (Alta - 1d)	2,349,154
800 Service (Alta - 1e)	3,244,208
Total Messages	37,943,699

Commission per message = $\frac{7,656,257}{37,943,699}$ = $ 0.2018

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Total Commission First Quarter 1985

	Jan.	Feb.	Mar.
Messages	3,141,898	3,440,726	3,360,557
Commission	0.2018	0.2018	0.2018
Total Commission	$ 634,035	$ 694,339	$ 678,160